

China Airlines, Ltd.

**Financial Statements for the
Six Months Ended June 30, 2007 and 2006 and
Independent Auditors' Report**

CHINA AIRLINES, LTD.

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INDEPENDENT AUDITORS' REPORT

The Board of Directors and the Stockholders
China Airlines, Ltd.

We have audited the accompanying balance sheets of China Airlines, Ltd. as of June 30, 2007 and 2006 and the related statements of income, changes in stockholders' equity and cash flows for the six months then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the Rules Governing the Audit of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Those rules and standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits, the financial statements referred to above present fairly, in all material respects, the financial position of China Airlines, Ltd. as of June 30, 2007 and 2006 and the results of its operations and its cash flows for the six months then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

As stated in Note 3 to the accompanying financial statements, effective January 1, 2006, the Company adopted the recently released Statements of Financial Accounting Standards ("Statements") No. 34 - "Accounting for Financial Instruments" and No. 36 - "Disclosure and Presentation of Financial Instruments" and related revisions of previously released Statements.

We have also audited the consolidated financial statements of China Airlines, Ltd. and its subsidiaries as of and for the six months ended June 30, 2007 and 2006 on which we have issued an unqualified report and a modified unqualified report thereon dated August 13, 2007 and August 14, 2006, respectively.

August 13, 2007

Notice to Readers

The accompanying financial statements are intended only to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in the Republic of China.

For the convenience of readers, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail.

CHINA AIRLINES, LTD.

BALANCE SHEETS

JUNE 30, 2007 AND 2006

(In Thousands of New Taiwan Dollars, Except Par Value)

ASSETS	2007		2006		LIABILITIES AND STOCKHOLDERS' EQUITY	2007		2006	
	Amount	%	Amount	%		Amount	%	Amount	%
CURRENT ASSETS					CURRENT LIABILITIES				
Cash and cash equivalents (Notes 2 and 4)	\$ 5,797,191	3	\$ 2,896,893	1	Short-term loans (Note 14)	\$ 3,000,000	1	\$ 4,900,000	2
Financial assets at fair value through profit or loss - current (Notes 2, 3, 5 and 25)	452,531	-	4,032,931	2	Commercial paper (Note 15)	599,983	-	1,698,314	1
Available-for-sale financial assets - current (Notes 2, 3, 6 and 25)	186,330	-	195,907	-	Financial liabilities at fair value through profit or loss - current (Notes 2, 3, 5 and 25)	78,171	-	123,435	-
Derivative financial assets for hedging - current (Notes 2, 3, 25 and 26)	173,506	-	227,009	-	Derivative financial liabilities for hedging - current (Notes 2, 3, 25 and 26)	108,188	-	231,676	-
Receivables:					Accounts payable	794,895	-	269,476	-
Notes and accounts, net (Notes 2 and 7)	11,131,658	5	9,000,015	4	Accounts payable to related parties (Note 27)	1,066,883	-	1,328,792	-
Notes and accounts - related parties (Note 27)	297,684	-	346,348	-	Accrued expenses (Note 2)	11,554,991	5	8,928,904	4
Other receivables (Note 8)	1,038,075	1	1,350,864	1	Bonds issued - current portion (Notes 2, 16 and 25)	1,600,000	1	10,001,900	4
Inventories, net (Notes 2 and 9)	5,531,833	2	5,476,862	2	Advance ticket sales (Note 2)	8,308,183	3	6,287,982	3
Prepaid expenses (Note 10)	206,668	-	148,597	-	Loans and debts - current portion (Notes 17, 25 and 28)	18,339,868	8	16,017,888	6
Deferred income tax assets - current (Notes 2 and 22)	102,114	-	-	-	Capital lease obligations - current portion (Notes 2 and 18)	1,516,417	1	1,400,719	1
Other current assets	262,719	-	187,976	-	Deferred income tax liabilities - current (Notes 2 and 22)	-	-	39,196	-
Total current assets	25,180,309	11	23,863,402	10	Other current liabilities	1,578,354	1	682,757	-
					Total current liabilities	48,545,933	20	51,911,039	21
LONG-TERM INVESTMENTS					LONG-TERM LIABILITIES				
Available-for-sale financial assets - noncurrent (Notes 2, 3, 6 and 25)	497,859	-	321,979	-	Derivative financial liabilities for hedging - noncurrent (Notes 2, 3, 25 and 26)	285,902	-	403,607	-
Derivative financial assets for hedging - noncurrent (Notes 2, 3, 25 and 26)	60,933	-	95,808	-	Bonds issued - noncurrent (Notes 2, 16 and 25)	19,292,800	8	10,845,700	4
Financial assets carried at cost - noncurrent (Notes 2, 3, 11 and 25)	426,786	-	502,367	-	Loans and debts - noncurrent (Notes 17, 25 and 28)	91,622,301	39	104,280,252	43
Investments accounted for using equity method (Notes 2 and 12)	8,659,214	4	8,428,595	4	Capital lease obligations - noncurrent (Notes 2 and 18)	7,489,140	3	8,946,697	4
Other financial assets - noncurrent	12,987	-	11,802	-	Total long-term liabilities	118,690,143	50	124,476,256	51
Total long-term investments	9,657,779	4	9,360,551	4	OTHER LIABILITIES				
PROPERTIES (Notes 2, 13 and 28)					Accrued pension costs (Notes 2 and 19)	5,564,852	2	5,539,956	2
Cost					Deferred profits on sale-leaseback (Note 2)	8,251,175	4	6,391,470	3
Land	2,106,788	1	2,106,788	1	Others	527,589	-	578,297	-
Buildings	7,554,509	3	7,511,718	3	Total other liabilities	14,343,616	6	12,509,723	5
Machinery and equipment	3,419,204	2	3,315,746	1	Total liabilities	181,579,692	76	188,897,018	77
Flight equipment	203,122,683	85	202,201,186	83	CAPITAL STOCK				
Furniture	809,147	-	819,271	-	Capital stock, \$10 par value				
Leased flight and other equipment	22,999,872	10	22,819,368	10	Authorized - 5,000,000 thousand shares				
Leasehold improvements	783,119	-	676,480	-	Issued and outstanding - 3,905,544 thousand shares in 2007 and 3,573,858 thousand shares in 2006	39,055,441	16	35,738,580	15
Revaluation increment	50,335	-	50,335	-	Capital stock to be distributed	1,228,692	1	1,814,427	1
Total cost and revaluation increment	240,845,657	101	239,500,892	98	Total capital stock	40,284,133	17	37,553,007	16
Accumulated depreciation	54,074,893	23	49,999,905	21	CAPITAL SURPLUS	8,543,384	4	7,891,259	3
	186,770,764	78	189,500,987	77	RETAINED EARNINGS				
Construction in progress and advance payments for equipment purchase contracts (Note 29)	1,684,981	1	9,572,421	4	Legal reserve	4,728,750	2	4,654,914	2
Net properties	188,455,745	79	199,073,408	81	Special reserve	985,408	-	1,271,622	-
INTANGIBLE ASSETS					Unappropriated earnings	2,630,265	1	4,373,214	2
Computer software, net (Note 2)	286,300	-	312,719	-	Total retained earnings	8,344,423	3	10,299,750	4
Deferred pension cost (Note 2)	1,643,989	1	2,010,636	1	STOCKHOLDERS' EQUITY - OTHER				
Total intangible assets	1,930,289	1	2,323,355	1	Cumulative translation adjustments	76,122	-	(184,119)	-
OTHER ASSETS					Net loss not recognized as pension cost	(1,377,369)	-	(1,237,988)	-
Pledged certificates of deposit (Note 28)	263,158	-	261,438	-	Unrealized valuation gain or loss on financial instruments	46,899	-	(245,485)	-
Idle properties, net	387,138	-	195,925	-	Unrealized revaluation increment	830,471	-	830,471	-
Deposits (Notes 28 and 29)	9,249,410	4	5,647,109	2	Company shares held by subsidiaries reclassified into treasury stock	(36,554)	-	(36,554)	-
Deferred charges (Note 2)	938,885	-	958,979	1	Total stockholders' equity - other	(460,431)	-	(873,675)	-
Deferred income tax assets - noncurrent (Notes 2 and 22)	2,228,488	1	2,083,192	1	Total stockholders' equity	56,711,509	24	54,870,341	23
Net other assets	13,067,079	5	9,146,643	4	TOTAL	\$ 238,291,201	100	\$ 243,767,359	100
TOTAL	\$ 238,291,201	100	\$ 243,767,359	100	TOTAL	\$ 238,291,201	100	\$ 243,767,359	100

The accompanying notes are an integral part of the financial statements.

(With Deloitte & Touche audit report dated August 13, 2007)

CHINA AIRLINES, LTD.

STATEMENTS OF INCOME

SIX MONTHS ENDED JUNE 30, 2007 AND 2006

(In Thousands of New Taiwan Dollars and Shares, Except Earnings Per Share)

	2007		2006	
	Amount	%	Amount	%
REVENUES (Notes 2 and 27)				
Passenger	\$32,986,853	55	\$29,458,910	52
Cargo	23,916,740	40	24,329,923	43
Others	<u>2,656,131</u>	<u>5</u>	<u>2,859,140</u>	<u>5</u>
Total revenues	<u>59,559,724</u>	<u>100</u>	<u>56,647,973</u>	<u>100</u>
COSTS (Notes 23 and 27)				
Flying operations	33,731,625	57	32,669,758	58
Terminal and landing fees	8,498,571	14	8,002,104	14
Passenger services	4,112,645	7	3,921,672	7
Aircraft maintenance	3,273,996	5	3,370,318	6
Others	<u>1,508,308</u>	<u>3</u>	<u>1,721,048</u>	<u>3</u>
Total costs	<u>51,125,145</u>	<u>86</u>	<u>49,684,900</u>	<u>88</u>
GROSS PROFIT	<u>8,434,579</u>	<u>14</u>	<u>6,963,073</u>	<u>12</u>
OPERATING EXPENSES (Note 23)				
Marketing and selling	6,201,571	10	5,975,606	10
General and administrative	<u>1,185,926</u>	<u>2</u>	<u>1,171,374</u>	<u>2</u>
Total operating expenses	<u>7,387,497</u>	<u>12</u>	<u>7,146,980</u>	<u>12</u>
OPERATING INCOME (LOSS)	<u>1,047,082</u>	<u>2</u>	<u>(183,907)</u>	<u>-</u>
NONOPERATING INCOME AND GAINS				
Interest income	94,962	-	66,575	-
Equity in earnings of equity-method investees, net (Notes 2 and 12)	211,243	-	376,483	1
Dividend income	215,013	1	165,377	-
Gain on disposal of properties, net (Note 2)	-	-	60,884	-
Gain on disposal of investments, net	22,099	-	28,170	-
Foreign exchange gain, net (Note 2)	66,656	-	185,119	1
Valuation gain on financial assets, net (Note 2)	673,837	1	692,512	1
Others	<u>171,555</u>	<u>-</u>	<u>651,391</u>	<u>1</u>
Total nonoperating income and gains	<u>1,455,365</u>	<u>2</u>	<u>2,226,511</u>	<u>4</u>

(Continued)

CHINA AIRLINES, LTD.

STATEMENTS OF INCOME

SIX MONTHS ENDED JUNE 30, 2007 AND 2006

(In Thousands of New Taiwan Dollars and Shares, Except Earnings Per Share)

	2007		2006	
	Amount	%	Amount	%
NONOPERATING EXPENSES AND LOSSES				
Interest expense	\$ 2,432,474	4	\$ 2,579,880	5
Other investment loss (Notes 2 and 6)	-	-	83,323	-
Loss on disposal of properties, net (Note 2)	815,779	1	-	-
Others	<u>311,135</u>	<u>1</u>	<u>120,394</u>	<u>-</u>
Total nonoperating expenses and losses	<u>3,559,388</u>	<u>6</u>	<u>2,783,597</u>	<u>5</u>
PRETAX LOSS	(1,056,941)	(2)	(740,993)	(1)
INCOME TAX BENEFIT (Notes 2 and 22)	<u>188,679</u>	<u>1</u>	<u>364,630</u>	<u>-</u>
LOSS BEFORE CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	(868,262)	(1)	(376,363)	(1)
CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES, NET OF TAX BENEFIT OF NT\$167,974 THOUSAND (Notes 3 and 22)	<u>-</u>	<u>-</u>	<u>504,430</u>	<u>1</u>
NET INCOME (LOSS)	<u>\$ (868,262)</u>	<u>(1)</u>	<u>\$ 128,067</u>	<u>-</u>
	2007		2006	
	Before Tax	After Tax	Before Tax	After Tax
EARNINGS PER SHARE (Note 24)				
Basic				
Net loss before cumulative effect of changes in accounting principles	\$ (0.27)	\$ (0.22)	\$ (0.20)	\$ (0.10)
Cumulative effect of changes in accounting principles	<u>-</u>	<u>-</u>	<u>0.18</u>	<u>0.13</u>
	<u>\$ (0.27)</u>	<u>\$ (0.22)</u>	<u>\$ (0.02)</u>	<u>\$ 0.03</u>
Diluted				
Net loss before cumulative effect of changes in accounting principles	\$ (0.27)	\$ (0.22)	\$ (0.15)	\$ (0.08)
Cumulative effect of changes in accounting principles	<u>-</u>	<u>-</u>	<u>0.14</u>	<u>0.11</u>
	<u>\$ (0.27)</u>	<u>\$ (0.22)</u>	<u>\$ (0.01)</u>	<u>\$ 0.03</u>

The accompanying notes are an integral part of the financial statements.

(With Deloitte & Touche audit report dated August 13, 2007)

(Concluded)

CHINA AIRLINES, LTD.

**STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
SIX MONTHS ENDED JUNE 30, 2007 AND 2006
(In Thousands of New Taiwan Dollars, Except Cash Dividend Per Share)**

	Capital Stock Issued and Outstanding		Capital Stock to Be Distributed (Note 20)	Capital Surplus (Notes 2 and 20)	Retained Earnings (Notes 2 and 20)				Cumulative Translation Adjustments (Note 2)	Net Loss not Recognized as Pension Cost (Note 2)	Unrealized Valuation Gain or Loss on Financial Instruments (Notes 2 and 3)	Unrealized Revaluation Increment (Notes 2 and 13)	Company Shares Held by Subsidiaries Reclassified into Treasury Stock (Notes 2, 20 and 21)	Total Stockholders' Equity
	Shares (in Thousands)	Amount			Legal Reserve	Special Reserve	Unappropriated Earnings	Total						
BALANCE, JANUARY 1, 2007	3,764,464	\$ 37,644,643	\$ -	\$ 7,930,723	\$ 4,654,914	\$ 1,271,622	\$ 4,983,501	\$ 10,910,037	\$ (193,493)	\$ (1,377,369)	\$ (245,017)	\$ 830,471	\$ (36,554)	\$ 55,463,441
Appropriation of the 2006 earnings														
Legal reserve	-	-	-	-	73,836	-	(73,836)	-	-	-	-	-	-	-
Special reserve	-	-	-	-	-	(286,214)	286,214	-	-	-	-	-	-	-
Cash dividends - \$0.12 per share	-	-	-	-	-	-	(468,660)	(468,660)	-	-	-	-	-	(468,660)
Stock dividends - 3%	-	-	1,171,649	-	-	-	(1,171,649)	(1,171,649)	-	-	-	-	-	-
Bonus to employees	-	-	57,043	-	-	-	(57,043)	(57,043)	-	-	-	-	-	-
Translation adjustments on investments in shares of stocks	-	-	-	-	-	-	-	-	19,685	-	-	-	-	19,685
Translation adjustments on a foreign operating entity	-	-	-	-	-	-	-	-	249,930	-	-	-	-	249,930
Conversion of bonds into capital stock	141,080	1,410,798	-	611,702	-	-	-	-	-	-	-	-	-	2,022,500
Unrealized gain or loss on available-for-sales financial assets	-	-	-	-	-	-	-	-	-	-	59,503	-	-	59,503
Unrealized gain or loss on cash flow hedge	-	-	-	-	-	-	-	-	-	-	232,315	-	-	232,315
Unrealized gain or loss on financial instruments of equity method investees	-	-	-	-	-	-	-	-	-	-	98	-	-	98
Capital surplus of equity method investees	-	-	-	959	-	-	-	-	-	-	-	-	-	959
Net loss in the six months ended June 30, 2007	-	-	-	-	-	-	(868,262)	(868,262)	-	-	-	-	-	(868,262)
BALANCE, JUNE 30, 2007	<u>3,905,544</u>	<u>\$ 39,055,441</u>	<u>\$ 1,228,692</u>	<u>\$ 8,543,384</u>	<u>\$ 4,728,750</u>	<u>\$ 985,408</u>	<u>\$ 2,630,265</u>	<u>\$ 8,344,423</u>	<u>\$ 76,122</u>	<u>\$ (1,377,369)</u>	<u>\$ 46,899</u>	<u>\$ 830,471</u>	<u>\$ (36,554)</u>	<u>\$ 56,711,509</u>
BALANCE, JANUARY 1, 2006	3,513,836	35,138,362	-	8,404,613	4,590,391	1,530,165	4,983,518	11,104,074	94,332	(1,237,988)	(127,966)	830,471	(36,554)	54,169,344
Cumulative effect of changes in accounting principles	-	-	-	-	-	-	-	-	-	-	(758,435)	-	-	(758,435)
Appropriation of the 2005 earnings														
Legal reserve	-	-	-	-	64,523	-	(64,523)	-	-	-	-	-	-	-
Special reserve	-	-	-	-	-	(258,543)	258,543	-	-	-	-	-	-	-
Stock dividends - 2.5%	-	-	882,036	-	-	-	(882,036)	(882,036)	-	-	-	-	-	-
Bonus to employees	-	-	50,355	-	-	-	(50,355)	(50,355)	-	-	-	-	-	-
Conversion of capital surplus to capital stock	-	-	882,036	(882,036)	-	-	-	-	-	-	-	-	-	-
Translation adjustments on investments in shares of stocks	-	-	-	-	-	-	-	-	35,984	-	-	-	-	35,984
Translation adjustments on a foreign operating entity	-	-	-	-	-	-	-	-	(314,435)	-	-	-	-	(314,435)
Conversion of bonds into capital stock	60,022	600,218	-	368,682	-	-	-	-	-	-	-	-	-	968,900
Net income in the six months ended June 30, 2006	-	-	-	-	-	-	128,067	128,067	-	-	-	-	-	128,067
Unrealized gain or loss on available-for-sale financial assets	-	-	-	-	-	-	-	-	-	-	25,290	-	-	25,290
Unrealized gain or loss on cash flow hedge	-	-	-	-	-	-	-	-	-	-	614,366	-	-	614,366
Unrealized gain or loss on financial instruments of equity method investees	-	-	-	-	-	-	-	-	-	-	1,260	-	-	1,260
BALANCE, JUNE 30, 2006	<u>3,573,858</u>	<u>\$ 35,738,580</u>	<u>\$ 1,814,427</u>	<u>\$ 7,891,259</u>	<u>\$ 4,654,914</u>	<u>\$ 1,271,622</u>	<u>\$ 4,373,214</u>	<u>\$ 10,299,750</u>	<u>\$ (184,119)</u>	<u>\$ (1,237,988)</u>	<u>\$ (245,485)</u>	<u>\$ 830,471</u>	<u>\$ (36,554)</u>	<u>\$ 54,870,341</u>

The accompanying notes are an integral part of the financial statements.

(With Deloitte & Touche audit report dated August 13, 2007)

CHINA AIRLINES, LTD.

STATEMENTS OF CASH FLOWS SIX MONTHS ENDED JUNE 30, 2007 AND 2006 (In Thousands of New Taiwan Dollars)

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ (868,262)	\$ 128,067
Cumulative effect of changes in accounting principles	-	(504,430)
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred income taxes	(247,644)	(196,657)
Depreciation and amortization	5,392,353	5,452,924
Loss (gain) on disposal of properties, net	815,779	(60,884)
Net loss on inventories, properties and idle properties	19,891	51,650
Loss on disposal of idle properties, net	108,652	70,500
Gain on disposal of available-for-sale financial assets	-	(1,415)
Equity in investees' net gain less cash dividends received	328,518	(241,760)
Other investment loss	-	83,323
Amortization of deferred profit on sale-leaseback	(470,185)	(322,315)
Loss on repurchase of convertible bonds	75,177	-
Amortization of deferred credits	(33,207)	(33,207)
Net changes in operating assets and liabilities:		
Financial assets and liabilities held for trading	6,970,734	1,213,927
Notes and accounts receivable	(364,970)	290,626
Notes and accounts receivable - related parties	25,820	(184,667)
Other receivables	(121,833)	206,263
Inventories	(615,149)	(330,513)
Prepaid expenses	(84,489)	(75,306)
Other current assets	(98,023)	308,746
Accounts payable	436,105	(55,837)
Accounts payable to related parties	(174,003)	316,936
Accrued expenses	(866,218)	(2,710,807)
Advance ticket sales	1,712,855	847,377
Other current liabilities	225,061	(10,216)
Accrued pension cost	120,006	124,558
Net cash provided by operating activities	<u>12,286,968</u>	<u>4,366,883</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to available-for-sale financial assets	(10,141)	-
Proceeds of disposal of available-for-sale financial assets	-	56,676
Disposal of derivative financial instruments for hedging	(39,567)	(93,241)
Decrease (increase) in pledged certificates of deposit	(2,572)	53,463
Additions to properties	(9,053,540)	(9,241,874)
Proceeds of disposal of properties	5,915,890	10,088,030
Proceeds of disposal of idle properties	102,047	53,782

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CHINA AIRLINES, LTD.

STATEMENTS OF CASH FLOWS SIX MONTHS ENDED JUNE 30, 2007 AND 2006 (In Thousands of New Taiwan Dollars)

	2007	2006
Increase in other financial assets - noncurrent	\$ (1,323)	\$ (1,217)
Increase in deposits made	(983,001)	(1,937,069)
Increase in computer software	-	(11,702)
Decrease (increase) in deferred charges	<u>(12,461)</u>	<u>14,675</u>
Net cash used in investing activities	<u>(4,084,668)</u>	<u>(1,018,477)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in short-term loans	3,000,000	3,900,000
Proceeds of commercial paper issuance	599,983	849,199
Proceeds of long-term loans	3,954,061	9,945,305
Repayments of long-term loans and capital lease obligations	(11,815,043)	(15,389,608)
Redemption of bonds issued	(2,000,000)	(1,800,000)
Repurchase of convertible bonds	(1,176,377)	-
Decrease in deferred profit on sale - leaseback	(217,160)	-
Increase (decrease) in deposits-in	<u>4,817</u>	<u>(677)</u>
Net cash used in financing activities	<u>(7,649,719)</u>	<u>(2,495,781)</u>
INCREASE IN CASH AND CASH EQUIVALENTS	552,581	852,625
EFFECTS OF EXCHANGE RATE CHANGES	-	(4,859)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>5,244,610</u>	<u>2,049,127</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 5,797,191</u>	<u>\$ 2,896,893</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	\$ 2,589,850	\$ 2,557,083
Less: Capitalized interest	<u>108,503</u>	<u>219,172</u>
Interest paid (excluding capitalized interest)	<u>\$ 2,481,347</u>	<u>\$ 2,337,911</u>
Income tax paid	<u>\$ 137,299</u>	<u>\$ 49,826</u>
NONCASH FINANCING ACTIVITIES		
Current portion of long-term loans and debts	<u>\$ 18,339,868</u>	<u>\$ 16,017,888</u>
Current portion of capital lease obligations	<u>\$ 1,516,417</u>	<u>\$ 1,400,719</u>
Current portion of bonds issued	<u>\$ 1,600,000</u>	<u>\$ 10,001,900</u>
Convertible bonds transferred to common stock	<u>\$ 2,022,500</u>	<u>\$ 968,900</u>

The accompanying notes are an integral part of the financial statements.

(With Deloitte & Touche audit report dated August 13, 2007)

(Concluded)

CHINA AIRLINES, LTD.

NOTES TO FINANCIAL STATEMENTS SIX MONTHS ENDED JUNE 30, 2007 AND 2006 (In New Taiwan Dollars, Unless Stated Otherwise)

1. ORGANIZATION AND OPERATIONS

China Airlines, Ltd. (“the Company”) was founded in 1959 and its stocks are listed on the Taiwan Stock Exchange. The Company primarily provides air transport services for passengers and cargo. Its other operations include (a) mail services; (b) ground services and routine aircraft maintenance; (c) major maintenance of flight equipment; (d) communications and data processing services to other airlines; (e) sale of aircraft parts, equipment and entire aircraft; and (f) lease of aircraft.

The Company is a subsidiary of China Aviation Development Foundation, which held 61.96% and 64.53% of the Company’s shares as of June 30, 2007 and 2006, respectively. The Company had 9,896 and 9,907 employees as of June 30, 2007 and 2006, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements have been prepared in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, the Business Accounting Law, Guidelines Governing Business Accounting and accounting principles generally accepted in the Republic of China. Under these guidelines and principles, the Company has to make certain estimates and assumptions that could affect the allowance for doubtful accounts, loss on market value decline of inventories, property depreciation, asset impairment, accrued expenses - frequent flyer program, pension cost and loss on pending lawsuits. Actual results could differ from these estimates.

For the convenience of readers, the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language financial statements shall prevail.

The Company’s significant accounting policies are summarized as follows:

Current or Noncurrent Assets and Liabilities

Cash and cash equivalents, assets held mainly for trading, and other assets to be realized, received or used up within a year are classified as current. Liabilities resulting mainly from trading and liabilities to be paid off or settled within a year are classified as current. Properties, intangible assets, and all other assets and liabilities are classified as noncurrent.

Cash Equivalents

Cash equivalents are bonds purchased under agreements to resell and due in three months from the date of investment. Their carrying amount approximates their fair value.

Financial Instruments at Fair Value Through Profit or Loss

Financial instruments at fair value through profit or loss are any financial assets and liabilities held for trading. The derivatives are initially recognized at fair value with transaction costs expensed as incurred. After initial recognition, the derivatives are remeasured at fair value, with the changes in fair value recognized as current earnings. Cash dividends received are accounted for as current revenue. A regular way purchase or sale of financial assets is recognized and derecognized using transaction date accounting.

Derivative instruments that do not meet the criteria for hedge accounting are classified as financial assets or liabilities held for trading.

Fair values are determined as follows: (a) listed stocks - closing prices as of the balance sheet date; (b) beneficiary certificates (open-end funds) - net assets value as of the balance sheet date.

Fair value is estimated using valuation techniques incorporating estimates and assumptions that are consistent with prevailing market conditions.

Available-for-sale Financial Assets

Available-for-sale financial assets are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition or issuance. When fair value is remeasured, the changes in fair value are excluded from earnings and reported as a separate component of stockholders' equity. The accumulated gains or losses are recognized as earnings when the financial asset is derecognized from the balance sheet. A regular way purchase or sale of financial assets is recognized and derecognized using transaction date accounting.

Cash dividends are recognized as investment income on ex-dividend dates but are accounted for as reductions of the original cost of investment if these dividends are declared on the investees' earnings attributable to periods before the purchase of the investments. Stock dividends are recorded as an increase in the number of shares held and do not affect investment income. The cost per share is recalculated on the basis of the new number of shares.

If there is objective evidence that a financial asset is impaired, a loss is recognized. If the impairment loss decreases in a subsequent period, the previously recognized impairment loss is reversed to the extent of the decrease and recorded as an adjustment to stockholders' equity.

Allowances for Doubtful Accounts

Allowances for doubtful accounts are provided on the basis of a periodic evaluation of their collectibility. The evaluation is based on aging analysis and the economic environment, etc.

Inventories

Inventories are primarily expendable and nonexpendable parts and materials, supplies used in operations and items for in-flight sale. These parts, materials and supplies are valued at the weighted-average cost less allowance for obsolescence. Items for in-flight sale are stated at the lower of weighted-average cost or market value (replacement cost or net realizable value). The costs of inventories sold or consumed are determined using the weighted-average method.

Financial Assets Carried at Cost

Equity investments, such as non-publicly traded stocks, whose fair value cannot be reliably measured are carried at original cost. Cash dividends are recognized as investment income on ex-dividend dates but are accounted for as reductions of the original investment costs if these dividends are declared on the investees' earnings attributable to periods before the purchase of the investments. Stock dividends are recorded as an increase in the number of shares held and do not affect investment income. The cost per share is recalculated on the basis of the new number of shares. If there is objective evidence that a financial asset is impaired, a loss is recognized. However, the recording of a subsequent recovery of fair value is not allowed.

Investments Accounted for Using Equity Method

Investments in companies in which the Company exercises significant influence on the investees' operating and financial policy decisions are accounted for using equity method. Under this method, investments are stated at cost on the acquisition date and subsequently adjusted for the Company's proportionate share or equity in the investees' net income or net loss. Cash dividends received are accounted for as a reduction of the carrying values of the investments. On investment acquisition, the difference, if any, between the cost of investment and the Company's share in the investee's net equity is amortized using the straight-line method over five years. However, effective January 1, 2006, based on the revised Statement of Financial Accounting Standards No. 5 - "Long-term Investments in Equity Securities," investment premiums for the cost of investment is greater than the Company share of the investee's identified net assets, representing goodwill, are no longer amortized but tested annually for impairment or if there is objective evidence that the goodwill is impaired.

If cost-method investments are later accounted for by the equity method because of increases in the Company's holdings in the investees as a result of the subscription for the investees' newly issued shares, a retroactive adjustment is not required for any difference between the cost and the increased share in the investee's net assets. The differences derived from investments in previous year and the year of change are then calculated individually and amortized over five years. However, since January 1, 2006, the differences are no longer being amortized like goodwill and are instead tested annually for impairment.

Gain or loss from transactions involving depreciable assets between the Company and its equity-method investees is deferred and recognized over the estimated useful lives of the assets.

For equity-method investments, stock dividends received are recorded only as an increase in the number of shares held and not as investment income. The cost per share is recalculated on the basis of the new number of shares.

Costs of investments sold are determined using the weighted-average method.

Under Statement of Financial Accounting Standards No. 30 - "Accounting for Treasury Stock," the Company reclassified its shares held by its subsidiaries into treasury stock at the carrying value as shown in the subsidiaries' books on January 1, 2002. Furthermore, when the Company recognized its investment income, the cash dividend income recognized by the subsidiaries from the Company's earnings appropriation was subtracted from investment income and credited to paid-in capital.

Properties

Properties are stated at cost plus revaluation increment (if any) less accumulated depreciation. Major betterments or renewals are capitalized, while maintenance and repairs are expensed when incurred. Interests on funds used to acquire flight equipment or to construct facilities before the date the equipment is used in operations are capitalized and included in the cost of the related assets.

Depreciation is calculated using the straight-line method over service lives estimated as follows (plus one year to represent estimated salvage value): buildings, 45 to 55 years; machinery and equipment, 5 to 6 years; flight equipment, 5 to 25 years; furniture, 5 years; leased assets, 6 to 25 years; and leasehold improvements, 5 years. Properties that have reached their residual value but are still in use are further depreciated over their newly estimated service lives.

Upon property sale or other disposal, the cost, revaluation increment (if any) and the related accumulated depreciation are removed from the accounts, and gain or loss is credited or charged to nonoperating income or expenses.

Leased Flight and Other Equipment

The amounts capitalized on flight and other equipment leased under agreements qualifying as capital leases are the lower of (a) the present value of all payments required under the lease agreements plus the bargain purchase price or (b) the fair value of the leased assets on the starting dates of the agreements. Interests implicit in lease payments are recorded as interest expense.

Amounts paid under operating lease agreements are charged to income over the term of the agreements. The imputed interest on rental deposits, calculated at the interest rate for one-year time deposits, is recorded both as rental expense and interest income.

Computer Software Costs

Computer software costs are amortized using the straight-line method over the estimated useful lives of the software.

Deferred Charges

Deferred charges mainly consist of (a) expenses for training pilots in operating new types of aircraft, (b) issue costs of corporate bonds and (c) costs incurred for syndicated loans. They are amortized using the straight-line method over the estimated useful lives or the terms of the bonds or loans.

Accrued Expenses - Frequent-flyer Program

Passengers who are members of the Dynasty Club may accumulate mileage points, which entitle them to choose among various awards (including an upgrade to a higher class or free tickets). A liability is accrued and charged to operating expense when a passenger reaches a certain award level. The amount accrued is based on the estimated incremental cost that will be incurred upon the provision of transport services.

Convertible Bonds

The net carrying amount of the bonds which was issued before December 31, 2005 (the face amount plus redemption premium accrued to the date of conversion but will not be paid) is credited to the appropriate capital accounts (capital stock equal to par value, with the balance credited to capital surplus) upon conversion of the bonds. No gain or loss is recognized on such conversions.

Pension Costs

The Company has two types of pension plans: Defined benefit and defined contribution.

Pension costs under the defined benefit pension plan are recognized on the basis of actuarial calculations. Unrecognized net transition obligation is amortized over 15 years, while pension gain or loss is amortized using the straight-line method based on the average remaining service years of employees.

If additional accrued pension cost based on actuarial calculations is not in excess of the sum of the unamortized balance of prior service costs and unrecognized net transition obligation, “deferred pension cost” will be debited. Otherwise, the excess amount should be debited to “net loss not recognized as pension cost” in stockholders’ equity.

Based on the defined contribution pension plan, the Company’s required monthly contributions to the employees’ individual pension accounts are recognized as expenses throughout the employees’ service periods.

Deferred Profits on Sale-leaseback

A gain on the sale by the Company of assets that it leases back is deferred and amortized over the term of the lease agreements.

Income Tax

The Company applies intra-period and inter-period allocations for its income tax. Deferred tax assets are recognized for the tax effects of deductible temporary differences, debit in equity and unused investment credits, and deferred tax liabilities are recognized for the tax effects of taxable temporary differences and credit in equity. Deferred tax liabilities and assets are classified as current or noncurrent on the basis of the classification of the related asset or liability for financial reporting. A deferred tax asset or liability that cannot be related to an asset or liability for financial reporting, is classified according to the expected reversal or realization date of the temporary difference. Valuation allowance is recognized on deferred tax assets that are not expected to be realized.

Income tax credits for certain acquisitions of eligible equipment or technology, research and development expenses and personnel training expenses are recognized in the period those acquisitions or expenses are incurred.

Adjustments to prior year’s tax liabilities are added to or deducted from the current year’s income tax expense.

Income taxes (10%) on undistributed earnings are recorded as expense in the year when the stockholders resolve to retain the earnings.

Since 2006, if the income tax payable determined under the Income Tax Law is below the minimum amount prescribed under the AMT Act, the difference would be recorded as current income tax expense.

Asset Impairment

SFAS No. 35 requires the Company to determine on each balance sheet date if properties, intangible assets and other assets (including a cash-generating unit) have been impaired. If there is impairment, then the Company must calculate the recoverable amount of the asset or the cash-generating unit. An impairment loss should be recognized whenever the recoverable amount of the asset or the cash-generating unit is below the carrying amount, and this impairment loss is either charged to accumulated impairment or used to reduce the carrying amount of the asset directly. If the Company revalues properties as required by law, an impairment loss on revalued properties should be charged to unrealized revaluation increment on properties, and if the capital surplus - revaluation increment on properties is not enough, the portion that exceeds the balance will be recognized as loss in the statement of income. After the recognition of an impairment loss, the depreciation (amortization) charged to the asset should be adjusted in future periods for the revised asset carrying amount (net of accumulated impairment), less its salvage value, and calculated on a systematic basis over its remaining service life. If asset impairment loss (excluding goodwill) is reversed, the increase in the carrying amount resulting from reversal is credited to current income. However, loss reversal should not be more than the carrying amount (net of depreciation) had the impairment not been recognized.

Revenues

Passenger fares and cargo revenues are recognized when transport service is provided. The value of unused passenger tickets is recognized as “advance ticket sales.”

Foreign-currency Transactions, Transactions of Foreign Subsidiaries or Foreign Operating Entity

The Company maintains its accounts and expresses its financial statements in New Taiwan dollars. Foreign-currency transactions (except derivative transactions) are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occur. Gains or losses resulting from the application of different foreign exchange rates when foreign-currency assets and liabilities are settled, are credited or charged to income in the settlement period.

The year-end balances of foreign-currency assets and liabilities are restated at the prevailing exchange rates, and the resulting differences are recorded as credits or charges to income.

At the balance sheet date, non-monetary assets and liabilities denominated in foreign currency (ex. investments in equity instruments), which are measured at fair value, are reported using the closing exchange rate. For a non-monetary financial asset with the changes in fair value recognized as an adjustment to stockholders' equity, exchange differences are recognized as an adjustment to stockholders' equity. For a non-monetary financial asset at fair value through profit or loss, exchange differences are recognized in the income statement. Non-monetary financial assets and liabilities denominated in foreign currency, which are measured at cost, are reported using the historical exchange rate on the date of transaction.

Equity-method investments in foreign subsidiaries/affiliates are recorded in New Taiwan dollars using the rates of exchange in effect on acquisition dates. On the balance sheet date, the investments and the related equity in net income or net loss are restated at the prevailing exchange rates and weighted-average rates, respectively, and resulting differences are recorded as translation adjustments under stockholders' equity.

Under a regulation by the Securities and Futures Bureau, the carrying amount of an aircraft acquired and the related U.S. dollar-denominated obligation incurred for the acquisition is accounted for as an investment in a foreign operating entity if the Company's use of the aircraft results in generating revenues and incurring expenses mainly in U.S. dollars. On balance sheet date, the carrying amount of the aircraft and the related liability are restated at balance sheet date rates. The difference is recognized in stockholders' equity as translation adjustment.

Hedge Accounting

The Company enters into some derivative transactions that aim to manage interest rate, exchange rate, fuel price, and other factors affecting gains or losses on assets and liabilities. The hedging transactions are defined as cash flow hedge. When entering into hedging transactions, the Company has prepared official documents that describe the hedging relationship between hedging instruments and items been hedged, objective of risk management, hedging strategy, and the way to evaluate the effectiveness of the hedging instrument.

Under cash flow hedge accounting, the profit or loss on the hedging instrument is recognized as profit or loss in the same period when the profit or loss on the hedged item is affected. The profit or loss on the hedging instrument is recognized as an adjustment to stockholders' equity and reclassified into current profit or loss when forecast transactions that are being hedged affect profit or loss. If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liabilities, the associated gains or losses that were recognized directly in equity shall be reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss. If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liabilities, it removes the associated gains and losses that were recognized directly in equity and includes them in the initial cost or other carrying amount of the asset or liability. However, if an entity expects that

all or a portion of a loss recognized directly in equity will not be recovered in one or more future periods, it shall reclassify the amount that is not expected to be recovered into profit or loss.

If the hedging instrument expires, is sold or terminated or no longer meets the hedge accounting criteria, the cumulative profit or loss on the hedging instrument that is effective and directly recognized as adjustments to stockholders' equity is still recognized as adjustments to stockholders' equity before forecast transactions occur and then reclassified into current profit or loss when forecast transactions occur.

Reclassifications

Certain 2006 accounts have been reclassified to be consistent with the 2007 financial statement presentation.

3. ACCOUNTING CHANGES

- a. The amount of the cumulative effect resulting from the change to new accounting principles

On January 1, 2006, the Company adopted the newly released Statements of Financial Accounting Standards ("Statements" or SFAS) No. 34 - "Financial Instruments: Recognition and Measurement" and No. 36 - "Financial Instruments: Disclosure and Presentation" and related revisions of previously released Statements.

The Company recategorized its financial assets and liabilities upon initial adoption of the newly released Statements. The adjustments made to the carrying amounts of the financial instruments recategorized as financial assets or financial liabilities at fair value through profit or loss were included in the cumulative effect of changes in accounting principles. On the other hand, the adjustments made to the carrying amounts of those assets recategorized as available-for-sale financial assets and of derivative instruments classified as for cash flow hedge were recognized as adjustments to stockholders' equity.

In addition, if foreign-currency equity investments accounted for by the cost method are recategorized into financial assets carried at cost, they should be remeasured at the historical exchange rate of the acquisition date, and resulting cumulative translation adjustments that decrease stockholders' equity and financial assets should be offset against each other.

The effect of account reclassification based on the accounting changes is summarized as follows:

	Recognized as Cumulative Effect of Changes in Accounting Principles (Net of Tax)	Recognized as a Separate Component of Stockholders' Equity (Net of Tax)
Financial assets at fair value through profit or loss - current	\$ 580,076,449	\$ -
Available-for-sale financial assets	-	(39,069,379)
Derivative financial assets for hedging	-	63,425,979
Financial assets carried at cost	-	3,572,088
Financial liabilities at fair value through profit or loss - current	(75,645,980)	-
Derivative financial liabilities for hedging	<u>-</u>	<u>(786,363,368)</u>
	<u>\$ 504,430,469</u>	<u>\$ (758,434,680)</u>

Effective January 1, 2006, the Company adopted the newly revised SFAS Nos. 1, 5, and 25, which prescribe that investment premiums, representing goodwill, be assessed for impairment instead of being amortized. This change resulted in an increase of \$5,575,000 in pretax income for the first half of 2006.

- b. Accounting standards or explanation announced and to be applied in the future

Under an explanation issued by ARDF of ROC in March of 2007, the accounting treatment for bonus to employees and remuneration to directors and supervisors should be expensed, instead of appropriation of earning. This explanation will take effect from January 1, 2008.

4. CASH AND CASH EQUIVALENTS

	June 30	
	2007	2006
Cash on hand	\$ 62,048,812	\$ 46,529,701
Revolving fund	78,869,704	152,990,791
Cash in banks	2,526,000,848	2,468,614,002
Certificates of deposit	1,270,000,000	196,078,432
Bonds purchased under resell agreements	<u>1,860,271,508</u>	<u>32,679,739</u>
	<u>\$ 5,797,190,872</u>	<u>\$ 2,896,892,665</u>

5. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial instruments held for trading are summarized as follows:

	June 30	
	2007	2006
<u>Financial assets held for trading</u>		
Beneficiary certificates	\$ 432,690,044	\$ 3,390,649,206
Interest rate swap contracts	19,840,734	-
Fuel swap contracts	-	639,855,661
Currency option contracts	-	2,235,943
Forward exchange contracts	<u>-</u>	<u>189,895</u>
	<u>\$ 452,530,778</u>	<u>\$ 4,032,930,705</u>
<u>Financial liabilities held for trading</u>		
Fuel swap contracts	\$ 78,170,842	\$ -
Interest rate swap contracts	<u>-</u>	<u>123,434,695</u>
	<u>\$ 78,170,842</u>	<u>\$ 123,434,695</u>

The gains on beneficiary certificates in the six months ended June 30, 2007 and 2006 were \$21,943,000 and \$13,424,000, respectively. The gains on derivative instruments held for trading in the six months ended June 30, 2007 and 2006 were \$673,890,000 and \$693,078,000, respectively.

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	June 30			
	2007	% of	2006	% of
	Carrying Value	Owner-ship	Carrying Value	Owner-ship
<u>Current</u>				
Domestic marketable equity securities				
China Steel	\$ 10,560,000	-	\$ -	-
Chunghwa Telecom	-	-	60,606,000	-
Foreign marketable equity securities				
France Telecom	<u>175,769,815</u>	-	<u>135,301,130</u>	-
	<u>\$ 186,329,815</u>		<u>\$ 195,907,130</u>	
<u>Noncurrent</u>				
Domestic marketable equity securities				
Far Eastern Air Transport	\$ 273,166,078	5.73	\$ 200,172,240	7.61
Trade-Van Information Service	<u>224,692,575</u>	5.98	<u>121,807,027</u>	5.98
	<u>\$ 497,858,653</u>		<u>\$ 321,979,267</u>	

In their special meeting, the stockholders of Far Eastern Air Transport resolved the make-up of accumulated deficit through capital reduction in May of 2006, and the Company thus recognized an investment loss of \$83,323,000 based on a decrease in its equity in the investee.

7. NOTES AND ACCOUNTS RECEIVABLE, NET

	June 30	
	2007	2006
Notes receivable	\$ 286,140,057	\$ 297,615,833
Accounts receivable	<u>10,897,073,451</u>	<u>8,756,683,688</u>
	11,183,213,508	9,054,299,521
Less: Allowance for doubtful accounts	<u>51,555,162</u>	<u>54,284,292</u>
	<u>\$ 11,131,658,346</u>	<u>\$ 9,000,015,229</u>

8. OTHER RECEIVABLES

	June 30	
	2007	2006
Accrued revenue	\$ 777,264,779	\$ 1,057,608,642
Tax refunds	235,268,294	173,103,501
Credit notes receivable for concessions from aircraft or engine manufacturers	4,867,257	108,801,446
Others	<u>20,674,774</u>	<u>11,350,708</u>
	<u>\$ 1,038,075,104</u>	<u>\$ 1,350,864,297</u>

9. INVENTORIES, NET

	<u>June 30</u>	
	<u>2007</u>	<u>2006</u>
Aircraft spare parts	\$ 4,609,312,175	\$ 4,639,997,449
Work-in-process - maintenance services	626,890,011	549,548,124
Items for in-flight sale	<u>345,378,489</u>	<u>337,328,774</u>
	5,581,580,675	5,526,874,347
Less: Allowance for losses	<u>49,748,027</u>	<u>50,011,877</u>
	<u>\$ 5,531,832,648</u>	<u>\$ 5,476,862,470</u>

10. PREPAID EXPENSES

	<u>June 30</u>	
	<u>2007</u>	<u>2006</u>
Prepaid insurance	\$ 126,802,088	\$ 67,267,640
Prepaid rentals	43,541,966	34,712,591
Prepaid aircraft rentals	31,161,161	21,645,011
Others	<u>5,162,614</u>	<u>24,971,496</u>
	<u>\$ 206,667,829</u>	<u>\$ 148,596,738</u>

11. FINANCIAL ASSETS CARRIED AT COST

	<u>June 30</u>			
	<u>2007</u>		<u>2006</u>	
	Carrying Value	% of Ownership	Carrying Value	% of Ownership
Unlisted common stocks				
Abacus International Holdings Ltd.	\$ 297,946,451	13.59	\$ 297,946,451	13.59
Jardine Air Terminal Services	56,022,929	15.00	56,022,929	15.00
Fat Capital Management	44,419,099	10.00	120,000,000	10.00
Chung Hwa Express Co.	22,000,000	11.00	22,000,000	11.00
Regal International Advertising	<u>5,925,000</u>	6.58	<u>5,925,000</u>	6.58
	426,313,479		501,894,380	
Unlisted preferred stocks				
Abacus International Holdings Ltd.	<u>472,522</u>	-	<u>472,522</u>	-
	<u>\$ 426,786,001</u>		<u>\$ 502,366,902</u>	

In their meeting on June 30, 2006, the stockholders of Fat Capital Management (FCM) resolved to reduce its capital. The Company thus received a return of capital of \$15,000,000 based on its equity in FCM on the date of the authorities' approval of the capital reduction. The Company recognized an impairment loss of \$60,581,000 (included in other investment loss) based on a decrease in FCM's net asset value as shown in FCM's audited financial statements as of and for the year ended December 31, 2006.

12. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	June 30			
	2007		2006	
	Carrying Value	% of Ownership	Carrying Value	% of Ownership
<u>Investees on which the Company exercises significant influence</u>				
Taiwan Air Cargo Terminal	\$ 1,632,907,673	54.00	\$ 1,655,818,926	54.00
Mandarin Airlines	1,512,728,430	93.99	1,495,752,520	93.99
Cal-Dynasty International	1,093,382,697	100.00	855,942,875	100.00
Cal-Asia Investment	983,593,816	100.00	1,395,640,588	100.00
Taoyuan International Airport Services	792,284,856	49.00	802,839,731	49.00
China Pacific Catering Services	599,272,034	51.00	582,230,879	51.00
Abacus Distribution Systems (Taiwan)	391,372,589	93.93	366,833,016	93.93
Taiwan Airport Services	341,516,775	47.35	343,048,701	47.35
China Aircraft Services Limited	315,163,377	20.00	261,486,896	20.00
Cal Park Co., Ltd.	297,405,348	100.00	-	-
Kaohsiung Catering Services	164,998,803	31.76	159,097,467	31.76
Science Park Logistics Co.	157,335,494	28.48	159,255,110	28.48
China Pacific Laundry Services	111,911,859	55.00	109,385,909	55.00
Asian Compressor Technology Services	107,892,276	24.50	105,135,708	24.50
Hwa Hsia	81,807,455	100.00	77,011,439	100.00
Yestrip Co., Ltd.	32,503,604	100.00	30,640,020	100.00
Dynasty Holidays	24,377,288	51.00	22,823,359	51.00
Cal Hotel Co., Ltd.	12,691,049	100.00	-	-
Global Sky Express	5,965,496	25.00	5,548,859	25.00
Freighter Princess Ltd.	35,088	100.00	35,088	100.00
Freighter Prince Ltd.	34,602	100.00	34,602	100.00
Freighter Queen Ltd.	<u>32,895</u>	100.00	<u>32,895</u>	100.00
	<u>\$ 8,659,213,504</u>		<u>\$ 8,428,594,588</u>	

The equity in net income or loss on all equity-method investments (except those in Cal Hotel Co., Ltd., Freighter Princess Ltd., Freighter Queen Ltd., Freighter Prince Ltd.) was calculated on the basis of the current year's audited financial statements. Since the total paid-in capital of Cal Hotel Co., Ltd., Freighter Princess Ltd., Freighter Queen Ltd. and Freighter Prince Ltd. is individually less than \$30 million and of their total operating revenue was individually less than \$50 million or collectively less than 10% of the Company's total operating revenues, the recognition of equity in net income was based on unaudited financial statements. The book value of investments in China Aircraft Service Ltd., as of June 30, 2007 and in China Aircraft Service Ltd. and Dynasty Holidays, as of June 30, 2006 and the calculation of related investment income or loss in the first half of 2007 and 2006 was based on unaudited financial statements. The Company believes that there would have been no material effect on the presentation of its financial statements as a whole had those investees' statements been audited. The equity in net income or loss on all equity-method investments is shown in Table 7 (attached).

The difference between the investment cost and the investee's net assets which is known as goodwill, was affected by the related-party transaction on depreciable assets between the Company and its subsidiary. The information for the six months ended June 30, 2007 and 2006 is as follows:

	Goodwill	Transaction between Company and Subsidiary
<u>June 30, 2007</u>		
Beginning	\$ 53,843,702	\$ (282,118,920)
Decrease	<u>-</u>	<u>16,434,111</u>
Ending	<u>\$ 53,843,702</u>	<u>\$ (265,684,809)</u>
<u>June 30, 2006</u>		
Beginning	\$ 53,843,702	\$ (314,987,144)
Decrease	<u>-</u>	<u>16,434,112</u>
Ending	<u>\$ 53,843,702</u>	<u>\$ (298,553,032)</u>

In September 2006, the Company invested \$300,000,000 to establish and wholly own Cal Park Co., Ltd. ("Cal Park"), an aviation enterprise operating center (including a hotel), in the Taiwan Taoyuan International Airport complex. The establishment of Cal Park, a build-operate-transfer project, is under an agreement signed by Cal Park with the Civil Aeronautics Administration (CAA). The Company will later enter into a lease agreement with Cal Park for the use of Cal Park as the Company's aviation headquarter and training crew dispatch center. In January 2007, the Company invested \$15,000,000 to establish Cal Hotel Co., Ltd. for operating an international hotel for transit passengers.

13. PROPERTIES

	<u>June 30</u>	
	<u>2007</u>	<u>2006</u>
Revaluation increment - cost		
Building	<u>\$ 50,335,009</u>	<u>\$ 50,335,009</u>
Accumulated depreciation		
Building	\$ 2,944,291,818	\$ 2,767,103,870
Machinery and equipment	2,770,814,702	2,637,752,380
Flight equipment	39,730,855,355	37,090,537,111
Furniture	657,501,118	622,948,033
Leased flight and other equipment	7,448,512,369	6,441,283,113
Leasehold improvements	<u>522,917,753</u>	<u>440,280,872</u>
	<u>\$ 54,074,893,115</u>	<u>\$ 49,999,905,379</u>

Interests capitalized in the six months ended June 30, 2007 and 2006 amounted to \$108,503,000 and \$219,172,000, respectively. These interests were calculated at rates ranging from 3.8292% to 5.7525% and from 3.7256% to 3.9518% in the six months ended June 30, 2007 and 2006, respectively.

In 1976 and 1982, the Company revalued its properties in accordance with government regulations. Revaluation increments were recorded as increases in the carrying amounts of the assets and as credits to unrealized revaluation increments.

14. SHORT-TERM LOANS

	<u>June 30</u>	
	<u>2007</u>	<u>2006</u>
Unsecured loans. Interest - 2.3% to 2.8% and 1.57% to 1.70% in the six months ended June 30, 2007 and 2006, respectively	<u>\$ 3,000,000,000</u>	<u>\$ 4,900,000,000</u>

15. COMMERCIAL PAPER

	<u>June 30</u>	
	<u>2007</u>	<u>2006</u>
Aggregate face value - discounted interest of 2% and 1.638% to 1.678% in the six months ended June 30, 2007 and 2006, respectively	\$ 600,000,000	\$ 1,700,000,000
Less: Unamortized discount	<u>16,667</u>	<u>1,686,100</u>
	<u>\$ 599,983,333</u>	<u>\$ 1,698,313,900</u>

16. BONDS ISSUED

	<u>June 30</u>	
	<u>2007</u>	<u>2006</u>
Current		
Second issue of unsecured bonds in 2001	\$ -	\$ 1,200,000,000
First issue of secured bonds in 2002	-	800,000,000
First issue of secured bonds in 2003	1,600,000,000	1,200,000,000
Second issue of unsecured domestic convertible bonds	<u>-</u>	<u>6,801,900,000</u>
	<u>\$ 1,600,000,000</u>	<u>\$ 10,001,900,000</u>
Noncurrent		
First issue of secured bonds in 2003	\$ -	\$ 1,600,000,000
First issue of secured bonds in 2006	6,500,000,000	-
Second issue of unsecured domestic convertible bonds	4,444,500,000	-
Third issue of unsecured domestic convertible bonds	<u>8,348,300,000</u>	<u>9,245,700,000</u>
	<u>\$ 19,292,800,000</u>	<u>\$ 10,845,700,000</u>

The first issue of 2006 secured bonds with an aggregate face value of \$6,500,000,000 was on July 26 and 27, 2006 (two business days). These bonds will mature on July 27, 2011 at an annual interest rate of 2.21%. The three consecutive annual repayments at 30%, 30% and 40% of the principal will start on July 27, 2009. The guarantor institutions are the Bank of Taiwan, Cathay United Bank, and China Development Industrial Bank.

The third issue of unsecured domestic convertible bonds with an aggregate face value of \$10,000,000,000 was on August 8, 2005. These bonds will mature on August 7, 2010 at an annual zero interest rate. The bond repayment terms, conversion features and other conditions are summarized as follows:

- a. The holders may demand a lump-sum payment for the bonds upon maturity.
- b. On August 7, 2008, the holders can require the Company to redeem their bonds at 99.7% of face value.

- c. The Company may redeem the bonds piecemeal between September 8, 2005 and June 28, 2010 under certain conditions.
- d. Between September 8, 2005 and July 28, 2010 (except for the period between the ex-dividend date and the date of dividend declaration on record), holders may convert the bonds to the Company's common shares. The initial conversion price was set at NT\$18.25, subject to adjustment if there is capital injection by cash, stock dividend distribution, or issuance of stock as employee stock bonus. The conversion price was NT\$14.8 on June 30, 2007.
- e. As of June 30, 2007, bonds with aggregate face value of \$905,800,000 had been converted into 55,952,000 common shares of the Company. The Company repurchased and wrote off bonds with aggregate face value of \$745,900,000.

The second issue of unsecured domestic convertible bonds with an aggregate face value of \$10,000,000,000 was on February 24, 2004. These bonds will mature on February 23, 2009 at an annual zero interest rate. The bond repayment terms, conversion features and other conditions are summarized as follows:

- a. The holders may demand a lump-sum payment for the bonds upon maturity.
- b. On February 23, 2007, the holders can require the Company to redeem their bonds at 99.70% of face value.
- c. The Company may redeem the bonds piecemeal between August 24, 2004 and January 14, 2009 under certain conditions.
- d. Between August 24, 2004 and February 13, 2009 (except for the period between the ex-dividend date and the date of dividend declaration on record), holders may convert the bonds to the Company's common shares. The initial conversion price was set at NT\$17.50, subject to adjustment if there is capital injection by cash, stock dividend distribution, or issuance of stock as employee stock bonus. The conversion price was NT\$14.3 on June 30, 2007.
- e. As of June 30, 2007, bonds with aggregate face value of \$5,200,200,000 had been converted into 335,706,000 common shares of the Company. The Company repurchased and wrote off bonds with aggregate face value of \$355,300,000.

On May 20 to 23, 2003 (4 business days), secured bonds with aggregate face values of \$1,200,000,000, \$1,200,000,000 and \$1,600,000,000 were issued as Types A, B and C bonds, respectively, with maturities of three, four and five years, respectively. The bonds are repayable in lump sum payment on maturity. The interests, 1.45% for Type A bonds and 1.60% for Type B bonds, are calculated and payable annually. The interest on Type C bonds is 4% minus floating interest rate, calculated semiannually and payable annually. The guarantor institutions for these three bond types are the Bank of Taiwan and Mega International Commercial Bank.

Secured bonds with an aggregate face value of \$2,000,000,000 were issued on May 15 to 28, 2002 (10 business days). The bonds will mature on May 28, 2007 at an annual interest rate of 2.84%. The three consecutive annual repayments at 30%, 30% and 40% of the principal started on May 28, 2005. The guarantor institutions are Land Bank and Taipei Fubon Bank.

The second issue of unsecured bonds, with an aggregate face value of \$3,000,000,000, was made between July 18, 2001 and August 6, 2001 (14 business days). The bonds will mature on August 6, 2006, with 4.9% annual interest payable annually. The consecutive annual repayments of the principal at 30%, 30% and 40% started on August 6, 2004.

17. LONG-TERM LOANS

	<u>June 30</u>	
	<u>2007</u>	<u>2006</u>
Bank loans	\$ 97,833,107,156	\$ 103,777,835,824
Commercial paper, net of unamortized discounts of \$45,938,563 and \$54,696,093 in the six months ended June 30, 2007 and 2006, respectively	12,129,061,437	16,520,303,907
Less: Current portion	<u>18,339,867,734</u>	<u>16,017,888,278</u>
	<u>\$ 91,622,300,859</u>	<u>\$ 104,280,251,453</u>

Bank loans (New Taiwan dollars, Japanese yen and U.S. dollars) are repayable either quarterly or semiannually or through a lump sum payment upon maturity in May 2019. The related information is summarized as follows:

<u>Amounts</u>	<u>Currency</u>		
	<u>New Taiwan Dollars</u>	<u>U.S. Dollars</u>	<u>Japanese Yen</u>
Original currency			
2007	NT\$47,641,659,000	US\$ 1,525,820,023	JPY -
2006	NT\$43,972,340,000	US\$ 1,824,834,928	JPY 600,000,000
Translated in New Taiwan dollars			
2007	\$ 47,641,659,000	\$ 50,191,448,156	\$ -
2006	\$ 43,972,340,000	\$ 59,635,128,398	\$ 170,367,426
<u>Interest rates</u>			
2007	1.818%-2.613%	4.3575%-6.1%	-
2006	1.583%-2.597%	4.3575%-5.5%	0.6461%
<u>Periods</u>			
2007	2001/2/27-2019/5/24	2000/7/6-2017/9/21	-
2006	2001/2/27-2017/5/11	2000/7/6-2017/9/21	2001/9/28-2006/9/28

The Company has note issuance facilities (NIFs) obtained from certain financial institutions. The NIFs, with various maturities until February 2016, were used by the Company to guarantee commercial paper it issued. The commercial paper was issued at discount rates of 1.700% to 2.065% and 1.459% to 2.176% in the six months ended June 30, 2007 and 2006, respectively.

18. LONG-TERM CAPITAL LEASE OBLIGATIONS

	<u>June 30</u>	
	<u>2007</u>	<u>2006</u>
Capital lease obligations	\$ 9,005,556,993	\$ 10,347,415,788
Less: Current portion	<u>1,516,417,479</u>	<u>1,400,718,644</u>
	<u>\$ 7,489,139,514</u>	<u>\$ 8,946,697,144</u>

As of June 30, 2007, the Company was leasing aircraft and related parts from certain foreign companies under capital lease agreements expiring on various dates until February 2014.

Future minimum rental payments on flight equipment are summarized as follows:

Period	Amount
July to December 2007	\$ 744,408,586
2008	1,572,643,122
2009	1,691,436,643
2010	1,281,660,519
2011	1,196,221,076
2012	1,287,042,485

Total rentals from 2013 onwards is \$1,232,145,000, and if discounted at the 2.46% interest rate of a one-year time deposit, the present value would be \$1,077,985,000.

19. PENSION PLAN

The Labor Pension Act (the “Act”) took effect on July 1, 2005. Company employees who were subject to the pension mechanism under the Labor Standards Law (the “Law”) as of June 30, 2005 were allowed to choose to continue to be subject to the pension scheme under the Law or to be subject instead to the pension mechanism under the Act, with their service years accumulated before the enforcement of the Act to be retained. Those hired on or after July 1, 2005 automatically become subject to the Act.

Based on the defined contribution pension plan under the Act, the rate of the Company’s required monthly contributions to the employees’ individual pension accounts under the custody of the Bureau of Labor Insurance is at 6% of salaries and wages. The Company recognized a defined contribution pension cost of \$42,956,000 and \$35,214,000 in the first half of 2007 and 2006.

The pension plan under the Law is a defined benefit pension plan. Benefits are based on the service years accumulated and the average basic salaries and wages of the six months before retirement. The Company makes monthly contributions to a pension fund at 10% of salaries and wages. The fund is administered by a pension fund committee and deposited in the committee’s name in the Bank of Taiwan. Other information on the defined benefit pension fund is as follows:

a. Pension fund movements

	Six Months Ended June 30	
	2007	2006
Balance, beginning of period	\$ 1,745,265,368	\$ 1,559,316,321
Contributions	390,392,348	390,637,020
Income from pension fund investments	12,306,410	10,113,468
Payment	<u>(302,610,297)</u>	<u>(363,396,044)</u>
Balance, end of period	<u>\$ 1,845,353,829</u>	<u>\$ 1,596,670,765</u>

b. Accrued pension cost movements

	<u>January 1 to June 30</u>	
	<u>2007</u>	<u>2006</u>
Balance, beginning of period	\$ 5,444,846,292	\$ 5,415,398,368
Pension cost recognized	532,521,222	525,805,208
Contributions	(390,392,348)	(390,637,020)
Payment	<u>(22,122,762)</u>	<u>(10,610,500)</u>
Balance, end of period	<u>\$ 5,564,852,404</u>	<u>\$ 5,539,956,056</u>

20. STOCKHOLDERS' EQUITY

As of June 21, 2007 and June 23, 2006, the appropriation of the 2006 and 2005 earnings, respectively, had been resolved by the stockholders, as follows:

	<u>Appropriation</u>		<u>Dividend Per Share</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Legal reserve	\$ 73,835,397	\$ 64,523,237		
Reversal of special reserve	(286,214,005)	(258,543,266)		
Cash dividends	468,659,601	-	\$ 0.12	\$ -
Stock dividends	1,171,649,000	882,035,700	0.30	0.25
Stock bonus for employees	<u>57,043,950</u>	<u>50,355,080</u>		
	<u>\$ 1,484,973,943</u>	<u>\$ 738,371,751</u>		

In their meeting on June 23, 2006, the stockholders resolved the conversion of capital surplus of \$882,036,000 to capital stock.

The above appropriations were the same as those proposed by the board of directors. Moreover, the Company's registration of the capital increase was approved by the Securities and Futures Bureau, and this increase will be effected on August 27, 2007.

The third issue of unsecured domestic convertible bonds with an aggregate face value of \$200,000 had been converted into the Company's 14,000 common shares in the second quarter of 2007. Under the related regulations, the Company can issue the shares first and then apply to the authorities for approval of the related capital increase. The Company completed the registration of capital increase on July 10, 2007.

Capital surplus from the issue of stock in excess of par value, stock issuance to effect a merger, reissuance of treasury stock and donation may be distributed as stock dividend or used to offset a deficit. But capital surplus from equity-method investees should not be used for any purpose.

Capital surplus is summarized as follows:

	<u>June 30</u>	
	<u>2007</u>	<u>2006</u>
Issue of stock in excess of par value	\$ 8,464,840,471	\$ 7,813,674,101
Gain on sale of treasury shares held by subsidiaries	72,541,328	72,541,328
Others	<u>6,002,760</u>	<u>5,044,174</u>
	<u>\$ 8,543,384,559</u>	<u>\$ 7,891,259,603</u>

The Company's Articles of Incorporation provide that the following should be appropriated from annual net income (less any deficit): (a) 10% as legal reserve, and (b) special reserve equivalent to a debit balance of any stockholders' equity account. From the remainder, the Company should also appropriate at least 3% as bonus to employees. Of the final remainder, at least 50% should be distributed to stockholders as both cash and stock dividends (cash dividend should not exceed 30% of the total dividends) or stock dividend only. In determining the amount of cash dividends to be distributed, the board of directors should take into account future cash requirements of the Company, primarily cash requirements for future aircraft acquisitions. Distribution of earnings generated in prior years should also meet the foregoing guidelines. All earnings appropriations should be made and approved by the stockholders in, and given effect to in the financial statements of, the year following the year of earnings generation.

The Company's special reserve appropriation from the current year's net income or the unappropriated earnings should be equal to the debit balance of any stockholders' equity account (other than deficit and the balance of treasury stocks). When the sum of the debit balances decreases, a portion of the special reserve equal to the amount of the decrease becomes available for distribution.

Under the regulations of the Securities and Futures Bureau, a special reserve is appropriated from the balance of the retained earnings at an amount equal to the carrying value of the treasury stock held by subsidiaries in excess of the market value on the balance sheet date. The special reserve may be reversed when the market value recovers.

Under the Company Law, legal reserve should be appropriated until the reserve equals the Company's paid-in capital. This reserve may be used to offset a deficit. Also, when the reserve exceeds 50% of the Company's paid-in capital, the Company (a) may distribute the portion of the reserve exceeding 50% of paid-in capital as dividends and bonus if it has no retained earnings or (b) may capitalize into common stock the excess portion that is over 25% of paid-in capital if the Company has no deficit as of the balance sheet date.

Under the Income Tax Law, ROC resident stockholders are entitled to income tax credit upon the distribution of dividends appropriated from earnings generated since January 1, 1998. The income tax credit is based on a creditable tax ratio determined on the date of dividend distribution.

21. TREASURY STOCK

(In Thousands of Shares)

Reason	Shares		
	Shares at Beginning of Period	(Decrease) During the Period	Shares at End of Period
<u>2007</u>			
Company shares held by its subsidiaries reclassified from investment in shares of stock to treasury stock	<u>4,046</u>	<u>-</u>	<u>4,046</u>
<u>2006</u>			
Company shares held by its subsidiaries reclassified from investment in shares of stock to treasury stock	<u>3,855</u>	<u>-</u>	<u>3,855</u>

The shares reclassified as treasury stock amounted to \$36,554,000 in the six months ended June 30, 2007 and 2006. The market values of the treasury shares as of June 30, 2007 and 2006 were \$57,292,000 and \$56,810,000, respectively.

The shares of the Company held by its subsidiaries were treated as treasury stock. The subsidiaries can exercise stockholders' right on these treasury stocks, except the right to subscribe for the Company's new shares. However, under the amended Company Law, the subsidiaries will no longer have voting rights effective June 22, 2005.

22. INCOME TAX

The R.O.C. government enacted the Alternative Minimum Tax Act ("AMT Act"), which took effect on January 1, 2006. The taxable income for calculating the AMT includes most of the income that is exempt from income tax under various laws and statutes. The Company has considered the impact of the AMT in the determination of its tax liabilities. The alternative minimum tax (AMT) imposed under the AMT Act is a supplemental tax levied at 10%, which is payable if the income tax payable determined under the Income Tax Law is below the minimum amount prescribed under the AMT Act.

- a. The reconciliation of the income tax expense on income before income tax expense at statutory income tax rate and income tax expense - current is as follows:

	<u>Six Months Ended June 30</u>	
	<u>2007</u>	<u>2006</u>
Income tax expense on income before income tax at statutory rate (25%)	\$ -	\$ -
Add (deduct) tax effects of:		
Permanent differences	209,050,667	140,898,986
Temporary differences	<u>(154,378,478)</u>	<u>(140,898,986)</u>
Income tax expense - current	<u>\$ 54,672,189</u>	<u>\$ -</u>

- b. Income tax expense (benefit) consisted of the following:

Income tax expense - current	\$ 54,672,189	\$ -
Net changes in deferred income tax expense (benefit):		
Allowance for loss on inventories	175,251	(126,770)
Reversal (allowance) for loss on idle properties	(469,855)	7,622,245
Equity in net loss of foreign equity-method investees	(17,035,575)	(1,675,745)
Depreciation difference between accounting and tax on properties	(8,671,441)	(9,086,133)
Accrued expense for frequent-flyer program	4,403,129	4,656,708
Valuation gain on financial instruments	150,522,646	131,546,647
Provision for pension cost	(29,634,906)	(32,071,970)
Unrealized foreign exchange gain	23,436,271	33,669,968
Difference between accounting and tax on interest	22,395,689	6,364,036
Investment income tax credits	(84,774,458)	(268,765,225)
Carryforward of unused tax losses	(367,333,040)	(257,585,654)
Provision of valuation allowance	59,342,120	188,796,336
Adjustment of prior years' tax	<u>4,293,427</u>	<u>-</u>
Income tax benefit before cumulative effect of changes in accounting principles	(188,678,553)	(196,655,557)
Income tax expense allocated to cumulative effect of changes in accounting principles	<u>-</u>	<u>167,973,583</u>
Income tax benefit	<u>\$ (188,678,553)</u>	<u>\$ (364,629,140)</u>

- c. Deferred income tax assets (liabilities) as of June 30, 2007 and 2006 consisted of the following:

	<u>June 30</u>	
	<u>2007</u>	<u>2006</u>
Current		
Allowance for loss on inventories	\$ 12,437,007	\$ 12,502,969
Accrued expenses for frequent-flyer program	37,527,224	40,325,189
Unrealized foreign exchange loss	64,423,501	98,265,415
Valuation gain or loss on financial instruments	14,582,527	(131,546,647)
Unrealized gain or loss on financial instruments	<u>(26,855,796)</u>	<u>(58,742,477)</u>
Deferred income tax assets (liabilities)	<u>\$ 102,114,463</u>	<u>\$ (39,195,551)</u>
Noncurrent		
Provision for pension cost	\$ 635,360,107	\$ 573,618,803
Difference between accounting and tax on interest	159,662,376	188,574,870
Equity in net loss of foreign equity-method investees	16,724,258	-
Allowance for loss on idle properties	220,959,270	227,191,179
Unrealized gain or loss on financial instruments	51,136,737	197,770,899
Carry forward of unused tax losses	367,333,040	257,585,654
Investment income tax credit	<u>3,424,018,325</u>	<u>3,019,513,396</u>
Deferred income tax assets	4,875,194,113	4,464,254,801
Less: Valuation allowance	<u>(2,396,812,827)</u>	<u>(2,031,797,611)</u>
Deferred income tax assets, net	2,478,381,286	2,432,457,190
Depreciation difference between accounting and tax on properties	(224,519,579)	(320,954,843)
Cumulative translation adjustments	(25,373,850)	-
Cumulative equity in net gain of foreign equity-method investees	<u>-</u>	<u>(28,310,545)</u>
Deferred income tax assets, net	<u>\$ 2,228,487,857</u>	<u>\$ 2,083,191,802</u>

- d. Information on the imputation credit account (ICA) and creditable tax ratio is summarized as follows:

	<u>June 30</u>	
	<u>2007</u>	<u>2006</u>
Balance of ICA	<u>\$ 78,156,019</u>	<u>\$ 69,330,413</u>

The expected and actual creditable tax ratios for dividend distribution to each qualified stockholder from earnings generated as of December 31, 2006 and 2005 were 15.70% and 14.41%, respectively.

The actual creditable tax ratio to be used for distributing the earnings generated as of December 31, 2006 will be determined on the date of dividend distribution. Thus, the expected creditable tax ratio may change depending on the ICA balance on the dividend distribution date.

- e. The unappropriated retained earnings as of June 30, 2007 and 2006 included earnings of \$3,498,527,000 and \$4,346,093,000 generated as of December 31, 1997, respectively.

The above deferred income taxes were computed at a tax rate of 25%.

f. Unused investment income tax credits as of June 30, 2007 were as follows:

Regulatory Basis of Tax Credits	Source of the Tax Credit	Total Amount of the Tax Credits	Remaining Tax Credits	Expiry Year
Article 6 of the Statute for Upgrading Industries	R&D expenses, personnel	\$ 728,009,810	\$ 158,180,920	2007
	training expenses and	1,413,493,056	769,884,880	2008
	purchases of eligible	1,710,959,868	1,710,959,868	2009
	equipment	751,165,239	751,165,239	2010
		33,827,418	33,827,418	2011

g. Unused tax loss carryforwards as of June 30, 2007 were as follows:

Expiry Year	Amount
2012	\$ 1,469,332,159

The income tax returns of the Company through 2005 had been examined by the tax authorities. Other information on these returns is as follows:

- On the Company's 1998 income tax return, the tax authorities calculated an additional gain of \$1,313,088,000 from the securities trading by foreign investees and assessed a fine on the Company. The tax authorities contended that transfers from the reorganization of foreign investees are considered securities trading. The Company has appealed these assessments and expects a favorable outcome on those appeals. But for conservative purposes, the Company recognized in 2003 an additional income tax on the 1998 income tax return.
- On the Company's 1999 income tax return, the tax authorities reduced by \$1,411,146,000 the loss carryforwards generated from 1998 because they determined that the additional gains on the securities trading in 1998 by foreign investees was in violation of the Income Tax Law. The Company is claiming that this reduction is unreasonable and has thus appealed the tax authorities' decision.
- On the Company's 2003 and 2004 income tax returns, the tax authorities assessed the Company an additional income tax of \$383,555,000 because the tax authorities reduced the loss carryforwards generated from 1998, which influenced the use of investment income tax credit in the following years. The Company is claiming that this reduction is unreasonable and has thus appealed the tax authorities' decision.

23. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

	Six Months Ended June 30, 2007		
	Included in Operating Costs	Included in Operating Expenses	Total
Personnel			
Salaries	\$ 4,057,463,715	\$ 1,129,029,339	\$ 5,186,493,054
Labor and health insurance	201,033,340	188,427,210	389,460,550
Pension cost	425,812,280	189,937,345	615,749,625
Others	1,011,951,458	141,190,852	1,153,142,310
Depreciation	5,141,826,606	177,483,640	5,319,310,246
Amortization	1,481,826	71,561,241	73,043,067

Six Months Ended June 30, 2006

	Included in Operating Costs	Included in Operating Expenses	Total
Personnel			
Salaries	\$ 4,040,906,348	\$ 1,067,706,231	\$ 5,108,612,579
Labor and health insurance	186,934,877	130,389,727	317,324,604
Pension cost	423,649,548	167,498,082	591,147,630
Others	946,693,787	128,409,840	1,075,103,627
Depreciation	5,205,687,497	169,548,722	5,375,236,219
Amortization	9,218,538	68,469,522	77,688,060

24. EARNINGS PER SHARE

The numerators and denominators used in calculating earnings per share (EPS) were as follows:

	<u>Amount (as Numerator)</u> <u>(Thousands)</u>		<u>Shares (as Denominator)</u> <u>(Thousands)</u>	<u>Earnings Per Share (NT\$)</u>	
	<u>Pretax</u>	<u>After Tax</u>		<u>Pretax</u>	<u>After Tax</u>
<u>Six months ended June 30, 2007</u>					
Basic and diluted EPS					
Net loss on common stock	<u>\$ (1,056,941)</u>	<u>\$ (868,262)</u>	<u>3,882,032</u>	<u>\$ (0.27)</u>	<u>\$ (0.22)</u>
Pro forma basic and diluted EPS reflecting stock dividend distribution after the date of the financial statements (Note)	<u>\$ (1,056,941)</u>	<u>\$ (868,262)</u>	<u>4,004,901</u>	<u>\$ (0.26)</u>	<u>\$ (0.22)</u>
<u>Six months ended June 30, 2006</u>					
Basic EPS					
Net income (loss) on common stock	\$ (68,589)	\$ 128,067	3,720,018	<u>\$ (0.02)</u>	<u>\$ 0.03</u>
Dilutive effect of potential common stock					
Second and third tranche of unsecured convertible bonds	-	-	1,045,587		
Diluted EPS	<u>\$ (68,589)</u>	<u>\$ 128,067</u>	<u>4,765,605</u>	<u>\$ (0.01)</u>	<u>\$ 0.03</u>
Pro forma basic EPS reflecting stock dividend distribution after the date of the financial statements (Note)	<u>\$ (68,589)</u>	<u>\$ 128,067</u>	<u>3,842,887</u>	<u>\$ (0.02)</u>	<u>\$ 0.03</u>
Pro forma diluted EPS reflecting stock dividend distribution after the date of the financial statements (Note)	<u>\$ (68,589)</u>	<u>\$ 128,067</u>	<u>4,888,474</u>	<u>\$ (0.01)</u>	<u>\$ 0.03</u>

In the EPS computation, the impact of stock dividends had been considered in the retroactive adjustment of the weighted-average number of shares used in the computation. As of June 30, 2006, basic EPS after tax decreased from NT\$0.04 to NT\$0.03, because of the retroactive adjustment.

Note: Pro forma EPS is adjusted retroactively to reflect stock dividend distribution resolved by the stockholders on June 21, 2007.

25. FINANCIAL INSTRUMENTS

a. Fair value of financial instruments

	June 30			
	2007		2006	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
<u>Financial assets</u>				
Financial assets - with fair values approximating carrying amounts	\$ 27,790,164,282	\$ 27,790,164,282	\$ 19,514,468,529	\$ 19,514,468,529
Financial assets at fair value through profit or loss	452,530,778	452,530,778	4,032,930,705	4,032,930,705
Available-for-sale financial assets	684,188,468	684,188,468	517,886,397	517,886,397
Derivative financial assets for hedging	234,439,099	234,439,099	322,816,872	322,816,872
Financial assets carried at cost	426,786,001	-	502,366,902	-
<u>Financial liabilities</u>				
Financial liabilities - with fair values approximating carrying amounts	26,132,775,465	26,132,775,465	147,865,914,060	147,865,914,060
Financial liabilities at fair value through profit or loss	78,170,842	78,170,842	123,434,695	123,434,695
Derivative financial liabilities for hedging	394,090,050	394,090,050	635,283,283	635,283,283
Bonds issued	20,892,800,000	21,602,558,600	20,847,600,000	21,345,435,000
Loans and debts	109,962,168,593	108,321,607,303	120,298,139,731	117,937,556,876

b. Methods and assumptions used in estimating the fair values of financial instruments are as follows:

- 1) The carrying amounts of cash and cash equivalents, receivables, other receivables, other financial assets - noncurrent, accounts deposit, pledged certificates of deposit, short-term loans, commercial paper, accounts payable, accounts payable to related parties, accrued expenses, capital lease obligations and guarantee deposit received, approximate their fair values because of the short maturities of these instruments.
- 2) For financial assets at fair value through profit or loss, available-for-sale financial assets, and derivative financial assets for hedging, fair value is best determined at quoted market prices. However, in many instances, there are no quoted market prices for the Company's various financial instruments. If quoted market prices are not available, fair values are based on estimates using indirect data and appropriate valuation methodologies. Fair values of derivatives are determined using valuation techniques incorporating estimates and assumptions that are consistent with prevailing market conditions.
- 3) If the Company does not have significant influence over the investees and these investees' shares do not have a quoted market price in an active market, their fair value, which cannot be reliably measured, are measured at cost.
- 4) Fair value of bonds issued is based on their quoted market price.
- 5) Some long-term debts and capital lease obligations are floating rate financial liabilities, so their carrying value are their fair value. The fair values of long-term debts with fixed interest rates are estimated the present value of expected cash flows discounted at rates of 5.475% to 5.657% and 5.71% to 5.73% as of June 30, 2007 and 2006 for long-term debts the Company can acquire in the market.

The total amount of fair value listed above is not equal to the total value of the Company because it is not necessary to disclose their fair value for partial financial and non-financial instruments.

- c. Fair values of financial assets and financial liabilities determined at quoted market prices or estimates are summarized as follows:

	<u>Quoted Market Prices</u>		<u>Fair Value Based on Estimates</u>	
	<u>June 30</u>		<u>June 30</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
<u>Financial assets</u>				
Financial assets at fair value through profit or loss	\$ 432,690,044	\$ 3,390,649,206	\$ 19,840,734	\$ 642,281,499
Available-for-sale financial assets	684,188,468	517,886,397	-	-
Derivative financial assets for hedging	-	-	234,439,099	322,816,872
<u>Financial liabilities</u>				
Financial liabilities at fair value through profit or loss	-	-	78,170,842	123,434,695
Derivative financial liabilities for hedging	-	-	394,090,050	635,283,283
Bonds issued	21,602,558,600	21,345,435,000	-	-
Loans and debts	-	-	108,321,607,303	117,937,556,876

- d. As of June 30, 2007 and 2006, loans and debts, short-term loans, bonds issued and capital lease obligations at fixed rate exposed to fair value interest rate risk were \$30,986,124,000 and \$37,107,632,000, respectively, and loans at floating rate exposed to cash flow interest rate risk were \$112,474,385,000 and \$120,983,838,000, respectively.
- e. The Company recognized an unrealized loss of \$59,480,000 and \$11,200,000 in stockholders' equity for the changes in fair value of available-for-sale financial assets in the six months ended June 30, 2007 and 2006, respectively, and \$1,415,000 was reclassified into current profit in the income statement in the six months ended June 30, 2006.

26. RISK MANAGEMENT AND HEDGING STRATEGIES

- a. Risk management strategy

The Company's risk management and hedging strategies to respond to changes in the economic and financial environment and in the fuel market. To reduce the financial risk from changes in interest and exchange rates and in fuel prices, the Company has its operating costs stay within a specified range by using appropriate financial hedging instruments and hedging percentages in accordance with the "Processing Program of Derivative Financial Instrument Transactions" approved by Company stockholders to reduce the impact of market price changes on earnings.

In addition, the Company has a financial risk management committee, which meets periodically to evaluate the performance of derivative instruments and determine the appropriate hedging percentage. This committee informs the Company of global economic and financial conditions, controls the entire financial risk resulting from changes in the financial environment and fuel prices, and develops the strategy and response to avoid financial risk with the help of financial risk management experts to effect risk management.

The Company enters into forward contracts and currency option contracts to hedge the risks on changes in foreign-currency assets, liabilities and commitments and in the related exchange rates; enters into interest swap contracts to hedge the risks on changes in net liability interest rates; enters into cross-currency swap contracts to hedge the risks on interest rate and exchange rate changes; and enters into fuel hedging contracts to hedge the risks on fuel price changes. The Company uses derivative financial instruments with fair values that are highly negative correlated to the fair values of hedged items and evaluates the hedging effectiveness of these instruments periodically.

The Company enters into derivative instruments just described above to evade major market risks. Partial derivative instruments are classified to financial assets or liabilities held for trading and measured at fair value for not meeting the criteria for hedge accounting, even if they can meet the financial hedge strategy.

The following table summarizes the aggregate contractual (notional) amounts, credit risk and fair value of the Company's and a subsidiary, Mandarin Airlines's derivative financial instruments as of June 30, 2007 and 2006.

	June 30					
	2007			2006		
<u>Hedge</u>	Contractual (Notional) Amount	Credit Risk	Fair Value	Contractual (Notional) Amount	Credit Risk	Fair Value
<u>The Company</u>						
Forward exchange	\$ 9,292,763,158	\$ 52,645,020	\$ (23,777,321)	\$ 3,888,888,889	\$ 44,777,258	\$ 43,234,931
Interest rate swaps	31,376,315,789	37,616,991	(218,638,922)	44,018,733,439	81,519,199	(638,894,170)
Currency options	230,263,158	1,546,271	1,497,923	620,915,032	4,836,476	4,343,556
Fuel swap	-	-	-	898,692,810	124,692,717	124,692,717
Cross-currency swaps						
- Currency swaps	7,617,940,296	21,670,654	(39,393,240)	9,967,320,261	31,134,022	(10,921,074)
- Interest swaps	7,617,940,296	120,960,163	120,660,609	9,967,320,261	122,160,382	119,936,757
<u>Trade</u>						
<u>The Company</u>						
Forward exchange	-	-	-	163,398,693	189,895	189,895
Interest rate swaps	4,000,000,000	19,840,734	19,840,734	9,000,000,000	-	(123,434,695)
Fuel swap	20,417,557,566	131,418,679	(78,170,842)	27,522,467,321	639,860,785	639,855,661
Currency options	-	-	-	163,398,693	2,235,943	2,235,943
<u>Mandarin Airlines</u>						
Fuel swap	17,076,547	-	(3,131,250)	74,509,804	641,026	641,026

The contract amount is used to calculate the amounts to be settled by the counter-parties; thus, it is neither the actual delivery amount nor the cash requirement of the Company. The derivative financial instruments held or issued by the Company are likely to be sold at reasonable market prices. The Company does not expect significant cash flow requirements upon contract maturity.

Credit risk refers to the loss the Company will incur on counter-parties' default on contracts. However, the Company's counter-parties are all trustworthy international and domestic financial institutions. In addition, the Company trades with several financial institutions to disperse risks. Thus, the Company does not expect to incur significant credit risks.

The calculation of the fair value of each derivative contract is based on quotes from financial institutions.

The Company's most amount of exposure to risk derived from all financial instruments (not including the fair value of collateral) is equal to the credit amount.

b. Cash flow hedge

Floating-interest long-term debts, foreign-currency firm commitments and transactions and expected aviation fuel purchases by the Company may result in future cash flow fluctuations and risks due to changes in market interest, exchange rates and fuel prices. To hedge these risks, the Company uses interest rate swaps, cross-currency swaps, forward exchange contracts and option contracts. The cash flow hedge information is summarized as follows:

Hedged Items	Designated Hedging Instruments		Expected Cash Flow Period	Profit or Loss Recognition Period	
	Financial Instruments Designated as Hedging Instruments	June 30, 2007			
		Nominal Amount			Fair Value
Floating-interest long-term debts	Interest rate swaps	\$ 31,376,315,789	\$ (218,638,922)	2006 to 2011	2006 to 2011
	Cross-currency swaps - interest swaps	7,617,940,296	120,660,609	2006 to 2009	2006 to 2009
Fuel cost in U.S. dollars	Forward exchange contracts	2,927,631,579	24,407,135	2006 to 2009	2006 to 2009
Loans and debts to repay capital with interest in U.S. dollars	Forward exchange contracts	6,365,131,579	(48,184,456)	2007 to 2009	2007 to 2009
	Cross-currency swaps - currency swaps	4,821,887,664	(35,321,388)	2007 to 2009	2007 to 2009
Advance payments in U.S. dollars for the purchase of planes	Currency options	230,263,158	1,497,923	2007	2007
	Cross-currency swaps - currency swaps	2,796,052,632	(4,071,852)	2006 to 2007	2006 to 2007
			<u>\$ (159,650,951)</u>		

Hedged Items	Designated Hedging Instruments		Expected Cash Flow Period	Profit or Loss Recognition Period	
	Financial Instruments Designated as Hedging Instruments	June 30, 2006			
		Nominal Amount			Fair Value
Floating-interest long-term debts	Interest rate swaps	\$ 44,018,733,439	\$ (638,894,170)	2006 to 2010	2006 to 2010
	Cross-currency swaps - interest swaps	9,826,454,937	119,936,757	2006 to 2007	2006 to 2007
Advance payments in U.S. dollars for the purchase of planes	Forward exchange contracts	3,888,888,889	43,234,931	2006 to 2007	2006 to 2007
	Currency options	620,915,032	4,343,556	2006	2006
Aviation fuel cost	Cross-currency swaps - currency swaps	9,967,320,261	(10,921,074)	2007	2007
	Fuel hedging	898,692,810	<u>124,692,717</u>	2006 to 2008	2006 to 2008
			<u>\$ (357,607,283)</u>		

The information of the profit or loss generated from cash flow hedging instruments was recognized as adjustments to stockholders' equity is summarized as follows:

Adjustment Items	June 30	
	2007 (Pretax)	2006 (Pretax)
The amount that was recognized in equity during the period	\$ 540,399,892	\$ 357,647,929
The amount that was removed from equity and included in profit or loss for the period	(19,372,249)	268,081,875
The amount that was removed from equity during the period and included in the carrying amount of a non-financial assets	(211,275,603)	19,161,500

27. RELATED-PARTY TRANSACTIONS

- a. The Company's related parties

<u>Related Party</u>	<u>Relationship with the Company</u>
Taiwan Air Cargo Terminal	Subsidiary
Mandarin Airlines	Subsidiary
Cal-Dynasty International	Subsidiary
Cal-Asia Investment	Subsidiary
Taoyuan International Airport Services	Subsidiary
China Pacific Catering Services	Subsidiary
Abacus Distribution Systems (Taiwan)	Subsidiary
Taiwan Airport Services	Subsidiary
China Aircraft Services Limited	Equity-method investee
Cal Park Co., Ltd.	Subsidiary
Kaohsiung Catering Services	Equity-method investee
Science Park Logistics Co.	Equity-method investee
China Pacific Laundry Services	Subsidiary
Asian Compressor Technology Services	Equity-method investee
Hwa Hsia	Subsidiary
Yestrip Co., Ltd.	Subsidiary
Dynasty Holidays	Subsidiary
Cal Hotel Co., Ltd.	Subsidiary
Global Sky Express	Subsidiary
Freighter Princess Ltd.	Subsidiary
Freighter Prince Ltd.	Subsidiary
Freighter Queen Ltd.	Subsidiary
Yangtze River Express Airlines Co., Ltd.	Equity-method investee of subsidiary
China Aviation Development Foundation	Major stockholder (61.96%)

- b. Significant transactions with related parties:

	<u>Six Months Ended June 30</u>			
	<u>2007</u>		<u>2006</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
1) Revenues				
Mandarin Airlines	\$ 711,137,754	1.19	\$ 743,068,936	1.31
Global Sky Express	93,878,957	0.16	83,082,582	0.14
Yangtze River Express Airlines Co., Ltd.	76,313,708	0.13	-	-
China Aviation Development Foundation	22,983,211	0.04	22,305,180	0.04
Taiwan Air Cargo Terminal	13,880,918	0.02	14,144,996	0.03
Others	<u>30,723,401</u>	<u>0.05</u>	<u>21,814,948</u>	<u>0.04</u>
	<u>\$ 948,917,949</u>	<u>1.59</u>	<u>\$ 884,416,642</u>	<u>1.56</u>

Six Months Ended June 30						
		2007		2006		
		Amount	%	Amount	%	
2) Costs						
China Pacific Catering Services	\$	531,411,509	1.04	\$	524,153,223	1.05
Taoyuan International Airport Services		457,056,731	0.89		430,340,534	0.87
Mandarin Airlines		246,561,723	0.48		387,285,433	0.78
Taiwan Airport Services		135,214,484	0.26		130,398,927	0.26
China Aircraft Services Limited		124,823,054	0.24		121,897,399	0.25
Taiwan Air Cargo Terminal		121,853,615	0.24		127,864,996	0.25
Hwa Hsia		116,147,160	0.23		103,723,643	0.21
China Aviation Development Foundation		50,064,137	0.10		54,489,064	0.11
Kaohsiung Catering Services		39,686,072	0.08		43,687,571	0.09
Dynasty Holidays		32,622,414	0.07		25,970,076	0.05
China Pacific Laundry Services		29,669,679	0.06		32,906,130	0.07
Cal-Dynasty International		22,006,579	0.04		21,877,023	0.04
Cal-Asia Investment		17,071,809	0.03		14,216,117	0.03
Others		20,442,500	0.04		18,674,210	0.04
		<u>\$ 1,944,631,466</u>	<u>3.80</u>		<u>\$ 2,037,484,346</u>	<u>4.10</u>
3) Notes and accounts receivables - related parties						
Mandarin Airlines	\$	229,064,054	76.95	\$	297,058,575	85.77
Yangtze River Express Airlines Co., Ltd.		31,625,018	10.62		-	-
China Aviation Development Foundation		12,663,856	4.25		13,133,862	3.79
Yestrip Co., Ltd.		8,979,732	3.02		19,955,130	5.76
Global Sky Express		7,632,843	2.56		7,494,972	2.16
Taiwan Air Cargo Terminal		3,826,076	1.29		4,146,811	1.20
Others		3,892,621	1.31		4,558,823	1.32
		<u>\$ 297,684,200</u>	<u>100.00</u>		<u>\$ 346,348,173</u>	<u>100.00</u>
4) Accounts payable to related parties						
Mandarin Airlines	\$	378,800,240	35.51	\$	678,252,794	51.04
China Pacific Catering Services		269,936,481	25.30		273,983,754	20.62
Taoyuan International Airport Services		204,342,572	19.15		186,958,069	14.07
Taiwan Airport Services		49,759,245	4.66		47,030,257	3.54
China Aircraft Services Limited		41,991,982	3.94		41,944,583	3.16
Taiwan Air Cargo Terminal		34,009,692	3.19		31,296,653	2.36
Hwa Hsia		25,004,053	2.34		20,285,124	1.53
China Aviation Development Foundation		19,072,805	1.79		20,642,285	1.55
Yangtze River Express Airlines Co., Ltd.		14,802,397	1.39		-	-
Kaohsiung Catering Services		13,468,337	1.26		15,597,740	1.17
Others		15,694,787	1.47		12,800,620	0.96
		<u>\$ 1,066,882,591</u>	<u>100.00</u>		<u>\$ 1,328,791,879</u>	<u>100.00</u>

5) Lease of property and equipment

In September 2002, the Company rented out planes to Mandarin Airlines under an operating lease agreement to help Mandarin Airlines fly the passenger and cargo routes between Kaohsiung and Hong Kong. Passenger fares, revenue and the cost of the routes were recognized at the percentages of seats sold every month. For cargo, the rent received was based on actual flights made. As of June 30, 2007 and 2006, the rentals received amounted to \$620,228,000 and \$675,013,000, respectively.

The Company rented planes from Mandarin Airlines under an operating lease agreement from July 2003 to February 2008. The Company paid the rental by flight hours, except for the rentals of the 737-800 aircraft, which were at a fixed US\$282,000 monthly. In the six months ended June 30, 2007 and 2006, the Company paid hourly flight rentals of about \$258,969,000 and \$330,553,000, respectively.

Under an operating lease agreement, the Company rented flight training machines and flight simulators from China Aviation Development Foundation to train pilots. The Company paid the rental based on usage hours. As of June 30, 2007 and 2006, the Company had paid usage rentals of about \$50,064,000 and \$54,489,000, respectively.

6) Endorsements and guarantees

	June 30			
	2007		2006	
	Authorized Amount	Occupied Amount	Authorized Amount	Occupied Amount
China Pacific laundry services - bank loans	\$ 120,000,000	\$ 50,000,000	\$ 120,000,000	\$ 120,000,000
Asian Compressor Technology Services - bank loans	-	-	28,022,876	20,816,993
Freighter Princess Ltd.	822,368,421	494,237,181	816,993,464	552,495,897
Freighter Prince Ltd.	822,368,421	453,346,338	816,993,464	465,104,881
Freighter Queen Ltd.	822,368,421	448,533,979	816,993,464	447,300,704

The transactions between the Company and related parties refer to the air transportation industry. The transaction price is negotiated under a regular transaction process, and the term of making collections and payments for receivables and payables is from 30 days to 2 months, which is consistent with credit policy.

28. PLEDGED ASSETS

The following assets had been pledged or mortgaged as collateral for long-term bank loans and business transactions:

	June 30	
	2007	2006
Deposits (for business transactions)	\$ 2,719,800	\$ 2,894,800
Pledged certificates of deposit (for bank loans)	263,157,895	261,437,908
Properties - flight equipment (net)	<u>129,502,609,387</u>	<u>125,611,690,012</u>
	<u>\$ 129,768,487,082</u>	<u>\$ 125,876,022,720</u>

29. COMMITMENTS AND CONTINGENT LIABILITIES

- a. The Company leased certain flight equipment and hangar under various operating lease agreements expiring on various dates until April 2019. Lease deposits aggregated \$8,925,000,000.

Minimum rentals for future years are summarized as follows:

Period/Year	Amount
July to December in 2007	\$ 2,114,914,010
2008	3,975,510,202
2009	3,542,610,520
2010	3,453,011,114
2011	2,925,006,340
2012	2,736,407,483

Rentals from 2013 and on will aggregate \$11,044,781,000. The present value of these rentals, discounted using the (2.46%) discount interest rate for one-year time deposits, is \$9,662,916,000.

- b. In December 2002, the Company entered into an option contract with Airbus for the purchase of twelve A330 aircraft and then into a second option contract to buy six more A330 aircraft. The Company exercised the purchase option on two planes in December 2003. As of June 30, 2007, Airbus had delivered 13 planes. The aggregate purchase price of the remaining one plane is US\$173,263,000. As of June 30, 2007, the Company had paid about US\$43,325,000, which was included in the “advance payments for equipment purchase” in the properties section of the balance sheets.
- c. A case involving a dispute between the Company and the Civil Aeronautics Administration (CAA) on certain lease payments and interests incurred on advances on leased aircraft was filed with the Taipei District Court. CAA repudiated the terms of the original contracts and claimed additional interests imputed both on the rentals for six planes under capital lease and on prepayments for another three planes, i.e., originally leased but were later acquired by the Company. The amount claimed was about \$1,100,000,000. The district court ruled that the Company should pay the additional interest, but the Company appealed this decision. On April 8, 2003, the Taiwan high court ruled that the Company should pay CAA only \$2,874,000 plus 5% interest from May 21, 1997 to the payment date. In addition, the Company has to pay 0.3% of the lawsuit fees. However, the supreme court reversed this ruling and remanded the case to the Taiwan high court on July 20, 2004 for a retrial. On August 29, 2006, the Taiwan high court ruled against CAA and the Company thus won the lawsuit. However, CAA refused to accept Taiwan high court’s sentence and filed an appeal with the supreme court. On June 28, 2007, the supreme court remanded the case to the Taiwan high court for a retrial, and the company expects to have a favorable outcome on this case.
- d. The Company entered into an operating lease agreement with the CAA for the use of six planes. Later, the CAA decided to dispose of these planes at public auction. As a lessee, the Company was entitled to bid at the auction and subsequently won the bid in December 2003. The Company paid the purchase price in December 2003 before the delivery of the planes in January 2004. Afterwards, the CAA claimed that the Company should pay the residual lease payments between the last date of rental payment and the delivery date. The Company claimed these lease payments were already included in the purchase price. In May 2005, the CAA filed a lawsuit against the Company with the Taipei district court and claimed residual lease payments of \$380,570,000 and a late payment penalty of \$2,059,000. The Taipei district court required the Company pay the claim amounts, but the Company refused, explaining that the lease agreement was originally a financing lease that entitled the Company to own those planes after it has fulfilled its obligation to pay all the lease payments. However, the CAA altered the lease agreement to an operating lease because of its intention to sell those planes. The Company believed that, in its ruling, the court failed to clarify the terms of the revised lease agreement.

In addition, the Company claimed that the CAA should return the excessive rentals collected during the lease term. If returned, these rentals can be used to offset the claims made by the CAA. The Company had provided more evidence to pursue its appeal with the Taiwan High Court against the CAA. It expects to have a favorable outcome on this case.

30. ADDITIONAL DISCLOSURES

- a. Following are the additional disclosures required by the Securities and Futures Bureau for the Company and its investees:
- 1) Financing provided: None
 - 2) Endorsement/guarantee provided: Table 1 (attached)
 - 3) Marketable securities held: Table 2 (attached)
 - 4) Marketable securities acquired and disposed of at costs or prices of at least NT\$100 million or 20% of the paid-in capital: Table 3 (attached)
 - 5) Acquisition of individual real estates at costs or price of at least NT\$100 million or 20% of the paid-in capital: None
 - 6) Disposal of individual real estates at cost or prices of at least NT\$100 million or 20% of the paid-in capital: Table 4 (attached)
 - 7) Total purchase from or sale to related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Table 5 (attached)
 - 8) Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Table 6 (attached).
 - 9) Names, locations, and related information of investees on which the Company exercises significant influence: Table 7 (attached).
 - 10) Derivative financial transactions (Note 26)
- b. Investment in Mainland China: Table 8 (attached)

CHINA AIRLINES, LTD. AND INVESTEEES

**ENDORSEMENT/GUARANTEE PROVIDED
SIX MONTHS ENDED JUNE 30, 2007
(In New Taiwan Dollars, Unless Stated Otherwise)**

No.	Endorsement/ Guarantee Provider	Counter-party		Limits on Each Counter-party's Endorsement/ Guarantee Amounts (Note 1)	Maximum Balance for the Period	Ending Balance	Value of Collaterals Property, Plant, or Equipment	Ratio of Accumulated Amount of Collateral to Net Equity of the Latest Financial Statement (%)	Maximum Collateral/Guarantee Amounts Allowable (Note 2)
		Name	Nature of Relationship						
0	China Airlines, Ltd.	China Pacific Laundry Services	55% subsidiary	\$11,342,301,811	\$ 120,000,000	\$ 120,000,000	\$ -	-	\$ 28,355,754,529
		Freighter Princess Ltd.	100% subsidiary	11,342,301,811	830,564,784	822,368,461	-	1	28,355,754,529
		Freighter Prince Ltd.	100% subsidiary	11,342,301,811	830,564,784	822,368,461	-	1	28,355,754,529
		Freighter Queen Ltd.	100% subsidiary	11,342,301,811	830,564,784	822,368,461	-	1	28,355,754,529

Note 1: Based on the Company's guidelines, the maximum guarantee to an individual counter-party is up to 20% of the Company's stockholders' equity.

Note 2: Based on the Company's guidelines, the allowable aggregate amount of collateral is up to 50% of the Company's stockholders' equity.

CHINA AIRLINES, LTD. AND INVESTEES

MARKETABLE SECURITIES HELD

JUNE 30, 2007

(In New Taiwan Dollars, Unless Stated Otherwise)

Holding Company Name	Marketable Securities Type and Issuer	Relationship with the Holding Company	Financial Statement Account	June 30, 2007				Note
				Shares/Units	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
China Airlines, Ltd.	<u>Stock</u> Taiwan Air Cargo Terminal	Subsidiary	Investments accounted for using equity method	135,000,000	\$ 1,632,907,673	54.00	\$ 1,632,907,673	-
	Mandarin Airlines	Subsidiary	Investments accounted for using equity method	188,154,026	1,512,728,430	93.99	1,818,907,404	Note 1
	Cal-Dynasty International	Subsidiary	Investments accounted for using equity method	2,614,500	1,093,382,697	100.00	1,093,382,697	-
	Cal-Asia Investment	Subsidiary	Investments accounted for using equity method	43,200,000	983,593,816	100.00	983,593,816	-
	Taoyuan International Airport Services	Subsidiary	Investments accounted for using equity method	34,300,000	792,284,856	49.00	792,284,856	-
	China Pacific Catering Services	Subsidiary	Investments accounted for using equity method	43,860,000	599,272,034	51.00	599,272,034	-
	Abacus Distribution Systems (Taiwan)	Subsidiary	Investments accounted for using equity method	22,450,008	391,372,589	93.93	391,372,589	-
	Taiwan Airport Services	Subsidiary	Investments accounted for using equity method	17,188,870	341,516,775	47.35	341,516,775	-
	China Aircraft Services Limited	Equity-method investee	Investments accounted for using equity method	28,400,000	315,163,377	20.00	268,406,214	Note 2
	Cal Park CO., Ltd.	Subsidiary	Investments accounted for using equity method	30,000,000	297,405,348	100.00	297,405,348	-
	Kaoshiung Catering Services	Equity-method investee	Investments accounted for using equity method	12,705,000	164,998,803	31.76	164,998,803	-
	Science Park Logistics Co.	Equity-method investee	Investments accounted for using equity method	13,293,000	157,335,494	28.48	150,248,955	Note 2
	China Pacific Laundry Services	Subsidiary	Investments accounted for using equity method	13,750,000	111,911,859	55.00	111,911,859	-
	Asian Compressor Technology Services	Equity-method investee	Investments accounted for using equity method	7,732,200	107,892,276	24.50	107,892,276	-
	Hwa Hsia	Subsidiary	Investments accounted for using equity method	50,000	81,807,455	100.00	98,682,476	Note 1
	Yestrip Co., Ltd.	Subsidiary	Investments accounted for using equity method	2,600,000	32,503,604	100.00	32,503,604	-
	Dynasty Holidays	Subsidiary	Investments accounted for using equity method	408	24,377,288	51.00	24,377,288	-
	Cal Hotel CO., Ltd.	Subsidiary	Investments accounted for using equity method	1,500,000	12,691,049	100.00	12,691,049	-
	Global Sky Express	Subsidiary	Investments accounted for using equity method	250,000	5,965,496	25.00	5,965,496	-
	Freighter Princess Ltd.	Subsidiary	Investments accounted for using equity method	1,000	35,088	100.00	35,088	-
	Freighter Prince Ltd.	Subsidiary	Investments accounted for using equity method	1,000	34,602	100.00	34,602	-
	Freighter Queen Ltd.	Subsidiary	Investments accounted for using equity method	1,000	32,895	100.00	32,895	-
	China Steel	-	Available-for-sale financial assets - current	264,000	10,560,000	-	10,560,000	-
	France Telecom	-	Available-for-sale financial assets - current	195,587	175,769,815	-	175,769,815	-
	Far Eastern Air Transport	-	Available-for-sale financial assets - noncurrent	34,753,954	273,166,078	5.73	273,166,078	-

(Continued)

Holding Company Name	Marketable Securities Type and Issuer	Relationship with the Holding Company	Financial Statement Account	June 30, 2007				Note
				Shares/Units	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
	Trade-Van Information Services	-	Available-for-sale financial assets - noncurrent	11,825,925	\$ 224,692,575	5.98	\$ 224,692,575	-
	Abacus International Holdings Ltd. - unlisted common stock	-	Financial assets carried at cost - noncurrent	1,359,368	297,946,451	13.59	1,516,147,889	Note 3
	Abacus International Holdings Ltd.- unlisted preferred stock	-	Financial assets carried at cost - noncurrent	135,937	472,522	-	1,516,147,889	Note 3
	Fat Capital Management	-	Financial assets carried at cost - noncurrent	10,500,000	44,419,099	10.00	43,227,989	-
	Jardine Air Terminal Services	-	Financial assets carried at cost - noncurrent	12,000,000	56,022,929	15.00	60,001,894	Note 4
	Chung Hua Express Co.	-	Financial assets carried at cost - noncurrent	2,200,000	22,000,000	11.00	26,239,178	Note 6
	Regal International Advertising	-	Financial assets carried at cost - noncurrent	592,500	5,925,000	6.58	3,352,872	Note 6
	<u>Beneficiary certificates</u> UPAMC JAMES BOND Fund	-	Financial assets at fair value through profit or loss - current	19,305,143.60	300,000,000	-	300,000,000	-
	JF(Taiwan) Bond Fund	-	Financial assets at fair value through profit or loss - current	2,602,692.50	40,008,069	-	40,008,069	-
	Sheng Hua 101 Global Mortgage Securitization Fund	-	Financial assets at fair value through profit or loss - current	3,000,000.00	31,734,000	-	31,734,000	-
	PCA WELL POOL FUND	-	Financial assets at fair value through profit or loss - current	2,378,837.90	30,006,423	-	30,006,423	-
	Goldman Sachs Money Market Fund	-	Financial assets at fair value through profit or loss - current	700,000.00	30,941,552	-	30,941,552	-
Taiwan Air Cargo Terminal	<u>Beneficiary certificates</u> Fuh-Hwa Bond Fund	-	Financial assets at fair value through profit or loss - current	24,908,007.20	334,529,482	-	334,529,482	-
	IBT Ta Chong Bond Fund	-	Financial assets at fair value through profit or loss - current	22,104,605.50	290,058,844	-	290,058,844	-
	Cathay Bond Fund	-	Financial assets at fair value through profit or loss - current	23,705,806.30	275,267,082	-	275,267,082	-
	Fubon Jin-Ju-I Fund	-	Financial assets at fair value through profit or loss - current	17,430,063.50	214,823,790	-	214,823,790	-
	Mega Diamond Bond Fund	-	Financial assets at fair value through profit or loss - current	17,847,550.76	206,895,947	-	206,895,947	-
	NITC Taiwan Bond Fund	-	Financial assets at fair value through profit or loss - current	14,473,671.60	205,468,242	-	205,468,242	-
	Dresdner Bond Dam Fund	-	Financial assets at fair value through profit or loss - current	16,671,161.82	194,647,484	-	194,647,484	-
	Fuhwa Bond Fund	-	Financial assets at fair value through profit or loss - current	10,915,134.42	140,562,918	-	140,562,918	-
	PCA WELL POOL FUND	-	Financial assets at fair value through profit or loss - current	8,435,968.40	106,410,462	-	106,410,462	-
	NITC Bond Fund	-	Financial assets at fair value through profit or loss - current	627,321.10	103,990,391	-	103,990,391	-
	Paradigm Pion Fund	-	Financial assets at fair value through profit or loss - current	9,559,155.50	102,997,989	-	102,997,989	-
	JF(Taiwan) Bond Fund	-	Financial assets at fair value through profit or loss - current	6,598,449.60	101,430,048	-	101,430,048	-
	Ri Sheng Wen Jian I Fund	-	Financial assets at fair value through profit or loss - current	9,860,219.06	101,436,018	-	101,436,018	-
	IBT 5599 Bond Fund	-	Financial assets at fair value through profit or loss - current	7,103,723.24	80,239,395	-	80,239,395	-
	UPAMC JAMES BOND Fund	-	Financial assets at fair value through profit or loss - current	3,302,982.90	51,328,024	-	51,328,024	-
	POLARIS DI-PO FUND	-	Financial assets at fair value through profit or loss - current	4,576,461.20	51,089,782	-	51,089,782	-

(Continued)

Holding Company Name	Marketable Securities Type and Issuer	Relationship with the Holding Company	Financial Statement Account	June 30, 2007				Note
				Shares/Units	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
Mandarin Airlines	<u>Stock</u> Mandarin Airlines Sweden AB	Subsidiary	Investments accounted for using equity method	1,000	\$ -	100.00	\$ -	-
	Mandarin Aircraft Trading Co., Ltd.	Subsidiary	Investments accounted for using equity method	1,000	-	100.00	-	-
	China Airlines, Ltd.	Parent company	Available-for-sale financial assets - current	2,905,475	43,001,030	-	43,001,030	-
	France Telecom	-	Available-for-sale financial assets - current	8,274	7,435,665	-	7,435,665	-
Cal-Asia Investment	<u>Stock</u> Yangtze River Express Airlines Co., Ltd.	Equity- method investee	Investments accounted for using equity method	-	739,292,533	25.00	(76,980,855)	Notes 2 and 5
	Xiamen International Airport Air Cargo Terminal Co., Ltd.	Equity- method investee	Investments accounted for using equity method	-	145,012,961	12.00	145,012,961	Note 5
	Xiamen International Airport Air Cargo Storage Co., Ltd.	Equity- method investee	Investments accounted for using equity method	-	55,292,401	12.00	12,069,253	Notes 2 and 5
	Eastern United International Logistics	Equity- method investee	Investments accounted for using equity method	600,000	14,323,026	20.00	14,323,026	Note 6
Taoyuan International Airport Services	<u>Stock</u> Taiwan Whi Lin Industry Co., Ltd.	Equity-method investee	Investments accounted for using equity method	4,275,000	44,859,583	26.07	44,859,583	Note 6
	Tao Yao Co., Ltd.	Subsidiary	Investments accounted for using equity method	1,000,000	11,117,053	100.00	11,117,053	Note 6
	Taiwan Air Cargo Terminal	Controlled by China Airlines	Financial assets carried at cost - noncurrent	6,250,000	62,500,000	2.50	75,597,578	-
	<u>Beneficiary certificates</u> ING Taiwan Income Fund	-	Financial assets at fair value through profit or loss - current	8,538,667.97	136,225,055	-	136,225,055	-
	IBT 1699 Bond Fund	-	Financial assets at fair value through profit or loss - current	5,075,777.80	63,429,457	-	63,429,457	-
	Primasia Money Market Fund	-	Financial assets at fair value through profit or loss - current	4,099,077.40	50,139,915	-	50,139,915	-
	JPM (Taiwan) Global Dynamic Fund	-	Financial assets at fair value through profit or loss - current	4,952,064.00	49,886,598	-	49,886,598	-
	CAPITAL INCOME FUND	-	Financial assets at fair value through profit or loss - current	3,045,290.00	45,689,704	-	45,689,704	-
	FUHW A BOND FUND	-	Financial assets at fair value through profit or loss - current	2,498,542.54	32,175,731	-	32,175,731	-
	IBT Ta Chong Bond Fund	-	Financial assets at fair value through profit or loss - current	2,367,256.20	31,063,373	-	31,063,373	-
	JF(Taiwan) Bond Fund	-	Financial assets at fair value through profit or loss - current	1,982,662.90	30,477,098	-	30,477,098	-
	TIIM High Yield Fund	-	Financial assets at fair value through profit or loss - current	1,640,621.78	20,529,100	-	20,529,100	-
	NITC Bond Fund	-	Financial assets at fair value through profit or loss - current	123,313.69	20,441,587	-	20,441,587	-
	Hua Nan Global Short Term Fixed Income Fund	-	Financial assets at fair value through profit or loss - current	1,498,305.20	15,532,930	-	15,532,930	-
	HSBC TAIWAN DRAGON FUND	-	Financial assets at fair value through profit or loss - current	749,327.50	11,637,431	-	11,637,431	-
	Mega Diamond Bond Fund	-	Financial assets at fair value through profit or loss - current	882,036.45	10,224,919	-	10,224,919	-
	DRESDNER BOND DAM FUND	-	Financial assets at fair value through profit or loss - current	875,457.41	10,221,578	-	10,221,578	-
	Fuh-Hwa Bond Fund	-	Financial assets at fair value through profit or loss - current	760,745.50	10,217,269	-	10,217,269	-

(Continued)

Holding Company Name	Marketable Securities Type and Issuer	Relationship with the Holding Company	Financial Statement Account	June 30, 2007				Note	
				Shares/Units	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value		
China Pacific Catering Services	Allianz Global Investors Global Quantitative Balanced Fund	-	Financial assets at fair value through profit or loss - current	873,595.20	\$ 9,845,418	-	\$ 9,845,418	-	
	Fuhwa Global Fund of Bond Funds	-	Financial assets at fair value through profit or loss - current	956,718.07	9,798,132	-	9,798,132	-	
	Allianz Global Investors Target 2015 Fund	-	Financial assets at fair value through profit or loss - current	866,746.40	9,794,234	-	9,794,234	-	
	<u>Beneficiary certificates</u> HSBC New Japan Fund Of Funds	-	Available-for-sale financial assets - current	2,000,000.00	19,920,000	-	19,920,000	-	
	HSBC Bric Fund	-	Available-for-sale financial assets - current	515,103.85	7,747,162	-	7,747,162	-	
	FUHW Classical Fund	-	Available-for-sale financial assets - current	487,367.40	4,922,216	-	4,922,216	-	
Abacus Distribution Systems (Taiwan)	<u>Beneficiary certificates</u> Prudential Financial Bond Fund	-	Financial assets at fair value through profit or loss - current	6,069,923.50	89,379,624	-	89,379,624	-	
	NITC Bond Fund	-	Financial assets at fair value through profit or loss - current	442,369.21	73,331,102	-	73,331,102	-	
	Tlam Solomon Bond Fund	-	Financial assets at fair value through profit or loss - current	3,334,017.23	39,156,032	-	39,156,032	-	
	Tlam B.B. Bond Fund	-	Financial assets at fair value through profit or loss - current	1,159,656.88	13,213,360	-	13,213,360	-	
Taiwan Airport Services	<u>Stock</u> Taiwan Air Cargo Terminal	Controlled by China Airlines	Financial assets carried at cost - noncurrent	6,250,000	62,500,000	2.50	75,597,577	-	
	TransAsia Airways	-	Financial assets carried at cost - noncurrent	2,899,099	26,400,000	0.60	29,006,606	-	
	Titan V.C. Corp.	-	Financial assets carried at cost - noncurrent	5,000,000	50,000,000	5.30	41,789,832	Note 4	
	Taiwan Airport Service (Samoa)	Subsidiary	Investments accounted for using equity method	-	217,171,683	100.00	217,171,683	Note 5	
	<u>Beneficiary certificates</u> Prudential Financial Bond Fund	-	Financial assets at fair value through profit or loss - current	5,764,377.70	84,880,462	-	84,880,462	-	
	Fuh-Hwa Bond Fund	-	Financial assets at fair value through profit or loss - current	1,641,190.90	22,042,179	-	22,042,179	-	
	THE RSIT ENHANCED BOND FUND	-	Financial assets at fair value through profit or loss - current	1,899,270.50	21,105,074	-	21,105,074	-	
	Mega Diamond Bond Fund	-	Financial assets at fair value through profit or loss - current	1,429,998.15	16,577,111	-	16,577,111	-	
	Cal Park CO., Ltd.	<u>Beneficiary certificates</u> ING Taiwan Income Fund	-	Financial assets at fair value through profit or loss - current	3,158,539.74	50,391,027	-	50,391,027	-
		IBT Ta Chong Bond Fund	-	Financial assets at fair value through profit or loss - current	3,839,567.50	50,383,189	-	50,383,189	-
Hwa Hsia	<u>Stock</u> Hwa Shin Building Safeguard Co., Ltd.	Subsidiary	Investments accounted for using equity method	1,000,000	11,319,852	100.00	11,319,852	Note 6	
	China Airlines	Parent company	Available-for-sale financial assets - current	1,140,204	16,875,019	-	16,875,019	-	

(Continued)

Holding Company Name	Marketable Securities Type and Issuer	Relationship with the Holding Company	Financial Statement Account	June 30, 2007				Note
				Shares/Units	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
Yestrip Co., Ltd.	<u>Beneficiary certificates</u> Capital Income Fund	-	Financial assets at fair value through profit or loss - current	\$ 2,305,144.00	34,584,997	-	\$ 34,584,997	-
	Hua Nan Phoenix Bond Fund	-	Financial assets at fair value through profit or loss - current	662,017.50	10,025,725	-	10,025,725	-
	ING Taiwan Income Fund	-	Financial assets at fair value through profit or loss - current	314,026.96	5,009,955	-	5,009,955	-
	<u>Beneficiary certificates</u> First Bank Selected Global Fund	-	Financial assets at fair value through profit or loss - current	556,070.43	5,899,907	-	5,899,907	-
	Franklin Templeton Bond Fund	-	Financial assets at fair value through profit or loss - current	19,391.73	4,766,316	-	4,766,316	-
	First Bank Taiwan Structured Notes	-	Financial assets at fair value through profit or loss - current	5,000,000.00	4,683,000	-	4,683,000	-
	Taiwan Airport Service (Samoa)	<u>Stock</u> Xiamen International Airport Air Cargo Terminal Co., Ltd.	Equity-method investee	Investments accounted for using equity method	-	157,074,779	13.00	157,074,779
	Xiamen International Airport Air Cargo Storage Co., Ltd.	Equity-method investee	Investments accounted for using equity method	-	60,096,904	13.00	13,075,024	Notes 2 and 5

Note 1: Based on the ROC Statement of Financial Accounting Standards No. 30 - "Accounting for Treasury Stocks," Company shares held by subsidiaries are reclassified from investment in shares of stocks to treasury stocks. In addition, the difference between the carrying value and net asset value of Mandarin Airlines is due to the difference between the investment acquisition cost and the Company's equity in the investee's net assets.

Note 2: The difference between carrying value and net asset value was the difference between the investment acquisition cost and the Company's equity in the investee's net assets.

Note 3: The subsidiary's net asset value was \$1,516,147,889 which included common stock and preferred stock as of and for the half year ended June 30, 2007.

Note 4: The subsidiary could not provide financial statements immediately, so the difference between carrying value and net asset value was computed by financial statement as of and for the year ended December 31, 2007.

Note 5: The Company was established as a limited company.

Note 6: The subsidiary's financial statements as of and for the six months ended June 30, 2007 were not audited.

(Concluded)

CHINA AIRLINES, LTD. AND INVESTEES

MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST NTS100 MILLION OR 20% OF THE PAID-IN CAPITAL
SIX MONTHS ENDED JUNE 30, 2007
(In New Taiwan Dollars, Unless Stated Otherwise)

Company Name	Marketable Securities Type and Issuer	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance		Acquisition		Disposal			Ending Balance		
					Shares/Units	Amount	Shares/Units	Amount (Note)	Shares/Units	Amount	Carrying Value	Gain (Loss) on Disposal	Shares/Units	Amount
China Airlines, Ltd.	<u>Beneficiary certificates</u>													
	ING Taiwan Bond Fund	Financial assets at fair value through profit or loss - current	-	-	17,028,957.74	\$ 200,051,087	43,893,544.53	\$ 499,948,913	60,922,502.27	\$ 700,471,233	\$ 700,000,000	\$ 471,233	-	\$ -
	IBT Ta Chong Bond Fund	Financial assets at fair value through profit or loss - current	-	-	23,042,005.60	300,082,952	-	(82,952)	23,042,005.60	300,472,361	300,000,000	472,361	-	-
	GRAND CATHAY BOND FUND	Financial assets at fair value through profit or loss - current	-	-	-	-	7,721,113.40	100,000,000	7,721,113.40	100,180,674	100,000,000	180,674	-	-
	AIG TAIWAN BOND FUND	Financial assets at fair value through profit or loss - current	-	-	23,533,841.66	300,080,015	23,497,712.89	299,919,985	47,031,554.55	600,762,002	600,000,000	762,002	-	-
	JIH SUN BOND FUND	Financial assets at fair value through profit or loss - current	-	-	21,993,812.41	300,076,978	91,315,958.87	1,249,923,022	113,309,771.28	1,551,320,974	1,550,000,000	1,320,974	-	-
	Taishin Lucky Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	68,031,631.00	700,000,000	68,031,631.00	700,752,583	700,000,000	752,583	-	-
	Taishin Money Market Fund	Financial assets at fair value through profit or loss - current	-	-	19,564,877.10	200,082,172	-	(82,172)	19,564,877.10	200,181,953	200,000,000	181,953	-	-
	TLAM SOLOMON BOND FUND	Financial assets at fair value through profit or loss - current	-	-	25,733,622.69	300,077,201	51,315,130.43	599,922,799	77,048,753.12	901,016,112	900,000,000	1,016,112	-	-
	Hua Nan Phoenix Bond Fund	Financial assets at fair value through profit or loss - current	-	-	13,316,643.10	200,055,929	23,268,750.30	349,944,071	36,585,393.40	550,784,347	550,000,000	784,347	-	-
	Hua Nan Kirin Fund	Financial assets at fair value through profit or loss - current	-	-	22,608,271.00	250,278,082	53,903,204.10	599,721,918	76,511,475.10	850,546,088	850,000,000	546,088	-	-
	Mega Diamond Bond Fund	Financial assets at fair value through profit or loss - current	-	-	34,778,677.20	400,107,814	26,071,993.46	299,892,186	60,850,670.66	700,780,543	700,000,000	780,543	-	-
	PCA Bond Fund	Financial assets at fair value through profit or loss - current	-	-	12,876,973.40	200,084,988	9,651,826.40	149,915,012	22,528,799.80	350,518,050	350,000,000	518,050	-	-
	Prudential Financial Bond Fund	Financial assets at fair value through profit or loss - current	-	-	20,532,756.60	300,082,131	-	(82,131)	20,532,756.60	300,459,934	300,000,000	459,934	-	-
	NITC Taiwan Bond Fund	Financial assets at fair value through profit or loss - current	-	-	35,496,641.00	500,108,625	23,368,986.30	329,891,375	58,865,627.30	830,828,078	830,000,000	828,078	-	-
	NITC Bond Fund	Financial assets at fair value through profit or loss - current	-	-	1,823,752.55	300,082,068	2,426,986.42	399,917,932	4,250,738.97	700,838,249	700,000,000	838,249	-	-
	Cathay Capital Income Growth Bond Fund	Financial assets at fair value through profit or loss - current	-	-	9,144,780.20	100,042,066	-	(42,066)	9,144,780.20	100,161,863	100,000,000	161,863	-	-
	Cathay Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	30,267,893.10	350,000,000	30,267,893.10	350,359,306	350,000,000	359,306	-	-
	THE INCREMENT FUND	Financial assets at fair value through profit or loss - current	-	-	19,728,535.35	300,076,941	19,613,098.94	299,923,059	39,341,634.29	600,449,395	600,000,000	449,395	-	-
	IBT 1699 Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	16,112,140.50	200,000,000	16,112,140.50	200,446,306	200,000,000	446,306	-	-
	IBT 5599 Bond Fund	Financial assets at fair value through profit or loss - current	-	-	22,327,209.72	250,265,694	-	(265,694)	22,327,209.72	250,314,814	250,000,000	314,814	-	-
	UPAMC JAMES BOND Fund	Financial assets at fair value through profit or loss - current	-	-	12,969,411.70	200,084,302	54,853,446.50	849,915,698	48,517,714.60	750,717,889	750,000,000	717,889	19,305,143.60	300,000,000
	ABN AMRO Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	19,904,194.48	300,000,000	19,904,194.48	300,511,538	300,000,000	511,538	-	-
	KGI Victory Fund	Financial assets at fair value through profit or loss - current	-	-	9,308,300.21	100,040,026	18,531,044.13	199,959,974	27,839,344.34	300,193,245	300,000,000	193,245	-	-
	FUBON CHI-HSIANG FUND	Financial assets at fair value through profit or loss - current	-	-	20,620,540.80	300,117,537	-	(117,537)	20,620,540.80	300,661,919	300,000,000	661,919	-	-
	Fuh-Hwa Bond Fund	Financial assets at fair value through profit or loss - current	-	-	22,511,875.00	300,090,047	41,117,229.50	549,909,953	63,629,104.50	850,834,649	850,000,000	834,649	-	-
	INVESCO ROC Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	20,149,610.94	300,000,000	20,149,610.94	300,358,393	300,000,000	358,393	-	-
	Paradigm Pion Fund	Financial assets at fair value through profit or loss - current	-	-	23,397,066.94	250,269,066	9,324,965.73	99,730,934	32,722,032.67	350,368,046	350,000,000	368,046	-	-
	HSBC NTD MONEY MANAGEMENT FUND 2	Financial assets at fair value through profit or loss - current	-	-	17,811,976.80	250,270,742	7,112,122.60	99,729,258	24,924,099.40	350,525,426	350,000,000	525,426	-	-
	NTS High Yield Fund	Financial assets at fair value through profit or loss - current	-	-	12,048,047.61	200,318,068	-	(318,068)	12,048,047.61	200,346,984	200,000,000	346,984	-	-
	Shinkong Chi-Shin Fund	Financial assets at fair value through profit or loss - current	-	-	20,950,452.18	300,077,517	59,130,402.05	849,922,483	80,080,854.23	1,151,122,939	1,150,000,000	1,122,939	-	-
	CAPITAL INCOME FUND	Financial assets at fair value through profit or loss - current	-	-	13,437,880.00	200,092,721	53,530,581.80	799,907,279	66,968,461.80	1,000,880,444	1,000,000,000	880,444	-	-
	THE FOREVER FUND	Financial assets at fair value through profit or loss - current	-	-	-	-	30,960,036.85	450,000,000	30,960,036.85	450,098,038	450,000,000	98,038	-	-
	THE RSIT ENHANCED BOND FUND	Financial assets at fair value through profit or loss - current	-	-	27,209,403.57	300,084,349	-	(84,349)	27,209,403.57	300,419,025	300,000,000	419,025	-	-
	DRESDNER BOND DAM FUND	Financial assets at fair value through profit or loss - current	-	-	-	-	47,256,806.56	550,000,000	47,256,806.56	550,186,070	550,000,000	186,070	-	-

(Continued)

Company Name	Marketable Securities Type and Issuer	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance		Acquisition		Disposal			Ending Balance		
					Shares/Units	Amount	Shares/Units	Amount (Note)	Shares/Units	Amount	Carrying Value	Gain (Loss) on Disposal	Shares/Units	Amount
	JF(Taiwan) Bond Fund	Financial assets at fair value through profit or loss - current	-	-	13,112,002.70	\$ 200,053,759	48,303,560.00	\$ 739,954,310	58,812,870.20	\$ 900,802,297	\$ 900,000,000	\$ 802,297	2,602,692.50	\$ 40,008,069
	Bond Fund	Financial assets at fair value through profit or loss - current	-	-	20,587,314.92	250,261,459	16,430,433.25	199,738,541	37,017,748.17	450,535,336	450,000,000	535,336	-	-
	POLARIS DI-PO FUND	Financial assets at fair value through profit or loss - current	-	-	27,083,145.30	300,081,250	71,879,864.70	799,918,750	98,963,010.00	1,101,215,899	1,100,000,000	1,215,899	-	-
	Primasia Money Market Fund	Financial assets at fair value through profit or loss - current	-	-	16,466,868.70	200,052,694	28,695,383.70	349,947,306	45,162,252.40	550,729,359	550,000,000	729,359	-	-
	Goldman Sachs Money Market Fund	Financial assets at fair value through profit or loss - current	-	-	4,500,000.00	162,672,235	-	1,595,385	3,800,000.00	133,326,068	133,326,068	-	700,000.00	30,941,552
Taiwan Air Cargo Terminal	<u>Beneficiary certificates</u>													
	FUHW A ADVANTAGE BOND FUND	Financial assets at fair value through profit or loss - current	-	-	20,951,390.49	218,441,292	-	-	20,951,390.49	219,044,091	218,441,292	602,799	-	-
	Cathay Capital Income Growth Bond Fund	Financial assets at fair value through profit or loss - current	-	-	24,981,488.00	273,292,482	-	-	24,981,488.00	274,544,055	273,292,482	1,251,573	-	-
	FUBON CHI-HSIANG FUND	Financial assets at fair value through profit or loss - current	-	-	13,420,279.00	195,322,767	-	-	13,420,279.00	196,211,531	195,322,767	888,764	-	-
	FUBON JIN-JU-I FUND	Financial assets at fair value through profit or loss - current	-	-	6,031,453.20	73,772,514	11,398,610.30	141,051,276	-	-	-	-	17,430,063.50	214,823,790
	FUHW A BOND FUND	Financial assets at fair value through profit or loss - current	-	-	-	-	10,915,134.42	140,562,918	-	-	-	-	10,915,134.42	140,562,918
	PCA WELL POOL FUND	Financial assets at fair value through profit or loss - current	-	-	-	-	8,435,968.40	106,410,462	-	-	-	-	8,435,968.40	106,410,462
	Cathay Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	23,705,806.30	275,267,082	-	-	-	-	23,705,806.30	275,267,082
Taiwan Airport Services	<u>Beneficiary certificates</u>													
	Prudential Financial Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	7,132,282.50	104,880,462	1,367,904.80	20,012,242	20,000,000	12,242	5,764,377.70	84,880,462
	Prudential Financial Return Fund	Financial assets at fair value through profit or loss - current	-	-	9,590,505.13	135,823,611	3,171,224.66	44,032,716	12,761,729.79	181,507,427	179,856,327	1,651,100	-	-

Note: Including valuation gain and loss on financial assets at the end of the period.

(Concluded)

CHINA AIRLINES, LTD. AND INVESTEES

**DISPOSAL OF INDIVIDUAL REAL ESTATES AT COST OR PRICES OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
SIX MONTHS ENDED JUNE 30, 2007
(Amounts in New Taiwan Thousand Dollars, Unless Stated Otherwise)**

Company Name	Property	Transaction Date	Prior Purchase Date	Book Value	Transaction Amount	Receivables from Transaction Amount Condition	Sale Gain (Loss)	Counter-party	Relationship	Purpose of Sale	Price Reference	Others
Dynasty Properties Co., Ltd.	Land and building of 391 Sutter Street San Francisco CA., USA	2007.06.29	1973.08.15	\$20,741,776 (US\$630,550)	\$402,960,526 (US\$12,250,000)	Received	\$378,784,046 (US\$11,515,035)	Empire Group	Unrelated party	Asset restructuring	Appraisal of Advanced Appraisal International, Ltd.	-

Note: Dynasty Properties Co., Ltd. is a subsidiary consolidated by Cal Dynasty International, Inc.

CHINA AIRLINES, LTD. AND INVESTEEES

TOTAL PURCHASE FROM OR SALE TO RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL

SIX MONTHS ENDED JUNE 30, 2007

(In New Taiwan Dollars, Unless Stated Otherwise)

Company Name	Related Party	Nature of Relationship	Transaction Details				Abnormal Transaction		Note/Account Payable or Receivable		Note
			Purchase/ Sale	Amount	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% to Total	
China Airlines, Ltd. ("China Airlines")	Taiwan Air Cargo Terminal Mandarin Airlines	Subsidiary	Purchase	\$ 121,853,615	0.24	30 days	\$ -	-	\$ (34,009,692)	(1.80)	-
		Subsidiary	Sale	(711,137,754)	(1.19)	2 months	-	-	229,064,054	2.00	-
	Taoyuan International Airport Services China Pacific Catering Services Taiwan Airport Services China Aircraft Services Limited Hwa Hsia	Subsidiary	Purchase	246,561,723	0.48	2 months	-	-	(378,800,240)	(20.05)	-
			Purchase	457,056,731	0.89	30 days	-	-	(204,342,572)	(10.82)	-
		Subsidiary	Purchase	531,411,509	1.04	60 days	-	-	(269,936,481)	(14.29)	-
		Subsidiary	Purchase	135,214,484	0.26	40 days	-	-	(49,759,245)	(2.63)	-
		Equity-method investee	Purchase	124,823,054	0.24	30 days	-	-	(41,991,982)	(2.22)	-
		Subsidiary	Purchase	116,147,160	0.23	2 months	-	-	(25,004,053)	(1.32)	-
Taiwan Air Cargo Terminal	China Airlines	Parent company	Sale	(121,853,615)	(12.98)	30 days	-	-	34,009,692	39.00	-
Mandarin Airlines	China Airlines	Parent company	Purchase	711,137,754	32.14	2 months	-	-	(229,064,054)	(75.64)	-
			Sale	(246,561,723)	(10.93)	2 months	-	-	378,800,240	61.24	-
Taoyuan International Airport Services	China Airlines	Parent company	Sale	(457,056,731)	(41.27)	30 days	-	-	204,342,572	54.95	-
China Pacific Catering Services	China Airlines	Parent company	Sale	(531,411,509)	(60.67)	60 days	-	-	269,936,481	70.99	-
Taiwan Airport Services	China Airlines	Parent company	Sale	(135,214,484)	(34.81)	40 days	-	-	49,759,245	41.05	-
China Aircraft Services Limited	China Airlines	Investor using equity method	Sale	(124,823,054)	(18.74)	30 days	-	-	41,991,982	20.85	-
Hwa Hsia	China Airlines	Parent company	Sale	(116,147,160)	(83.54)	2 months	-	-	25,004,053	80.48	-

CHINA AIRLINES, LTD. AND INVESTEEES

**RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
JUNE 30, 2007
(In New Taiwan Dollars, Unless Stated Otherwise)**

Company Name	Related Party	Nature of Relationship	Ending Balance	Turnover Rate	Overdue		Amounts Received in Subsequent Period	Allowance for Bad Debts
					Amount	Action Taken		
China Airlines, Ltd. ("China Airlines")	Mandarin Airlines	Subsidiary	\$ 229,064,054	5.55	\$ -	-	\$ 22,521,474	\$ -
Mandarin Airlines	China Airlines	Parent company	378,800,240	1.03	-	-	23,936,000	-
Taoyuan International Airport Services	China Airlines	Parent company	204,342,572	4.57	-	-	122,803,684	-
China Pacific Catering Services	China Airlines	Parent company	269,936,481	3.91	-	-	88,309,585	-

CHINA AIRLINES, LTD. AND INVESTEEES

NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE
SIX MONTHS ENDED JUNE 30, 2007
(In New Taiwan Dollars, Unless Stated Otherwise)

Investor Company	Investee Company	Location	Main Businesses and Products	Investment Amount		Balance as of June 30, 2007			Net Income (Loss) of the Investee	Investment Income (Loss)	Note
				June 30, 2007	December 31, 2006	Shares	Percentage of Ownership	Carrying Value			
China Airlines, Ltd.	Taiwan Air Cargo Terminal	Taoyuan, Taiwan	Air cargo and storage	\$ 1,350,000,000	\$ 1,350,000,000	135,000,000	54.00	\$ 1,632,907,673	\$ 117,112,044	\$ 57,950,082	-
	Mandarin Airlines	Taipei, Taiwan	Air transportation and maintenance of aircraft	2,042,368,252	2,042,368,252	188,154,026	93.99	1,512,728,430	(49,404,309)	(30,001,613)	Note 1
	Cal-Dynasty International	Los Angeles, U.S.A.	A holding company, real estate, hotel services, lease of aircraft and serving as cargo agent	US\$ 26,145,000	US\$ 26,145,000	2,614,500	100.00	1,093,382,697	244,671,941	244,671,941	Note 2
	Cal-Asia Investment	Territory of the British Virgin Islands	General investment	US\$ 43,200,000	US\$ 43,200,000	43,200,000	100.00	983,593,816	(309,958,684)	(309,958,684)	-
	Taoyuan International Airport Services	Taoyuan, Taiwan	Airport services	147,000,000	147,000,000	34,300,000	49.00	792,284,856	88,646,676	42,800,330	-
	China Pacific Catering Services	Taoyuan, Taiwan	In-flight catering	438,600,000	438,600,000	43,860,000	51.00	599,272,034	139,065,945	70,793,563	-
	Abacus Distribution System (Taiwan)	Taipei, Taiwan	Sale and maintenance of hardware and software	90,000,000	90,000,000	22,450,008	93.93	391,372,589	64,803,162	58,505,345	-
	Taiwan Airport Services	Taipei, Taiwan	Airport services	12,289,100	12,289,100	17,188,870	47.35	341,516,775	4,496,618	1,937,795	-
	China Aircraft Service Ltd.	Hong Kong International Airport	Airport services	HK\$ 58,000,000	HK\$ 58,000,000	28,400,000	20.00	315,163,377	153,705,534	30,741,107	-
	Cal Park Co., Ltd.	Taipei, Taiwan	Real estate lease and international trade	300,000,000	300,000,000	30,000,000	100.00	297,405,348	(1,092,671)	(1,092,671)	-
	Kaohsiung Catering Services	Kaohsiung, Taiwan	In-flight catering	115,500,000	115,500,000	12,705,000	31.76	164,998,803	61,214,032	17,745,973	-
	Science Park Logistics Co.	Tainan, Taiwan	Storage and customs of services	150,654,000	150,654,000	13,295,000	28.48	157,335,494	17,949,282	3,707,928	-
	China Pacific Laundry Services	Taoyuan, Taiwan	Cleaning and leasing of the tower of airlines company, hotel, restaurant, and health club	137,500,000	137,500,000	13,750,000	55.00	111,911,859	32,918	18,104	-
	Asian Compressor Technology Services	Taoyuan, Taiwan	Research, manufacture and maintenance of engines	77,322,000	77,322,000	7,732,200	24.50	107,892,276	31,960,582	7,814,587	-
	Hwa Hsia	Taoyuan, Taiwan	Cleaning of aircraft and maintenance of machine and equipment	50,000,000	50,000,000	50,000,000	100.00	81,807,455	14,689,813	14,086,357	Note 1
	Yestrip Co., Ltd.	Taipei, Taiwan	Travel business	36,264,643	36,264,643	2,600,000	100.00	32,503,604	2,909,304	2,783,130	-
	Dynasty Holidays	Tokyo, Japan	Travel business	JPY 20,400,000	JPY 20,400,000	408	51.00	24,377,288	(588,576)	(300,174)	-
	Cal Hotel Co., Ltd.	Taipei, Taiwan	General hotel business	15,000,000	-	1,500,000	100.00	12,691,049	(2,308,951)	(2,308,951)	-
	Global Sky Express	Taipei Taiwan	Forwarding and storage of air cargo	2,500,000	2,500,000	250,000	25.00	5,965,496	5,796,731	1,348,352	-
	Freighter Princess Ltd.	Cayman Islands	Aircraft lease	US\$ 1,000	US\$ 1,000	1,000	100.00	35,088	-	-	-
Freighter Prince Ltd.	Cayman Islands	Aircraft lease	US\$ 1,000	US\$ 1,000	1,000	100.00	34,602	-	-	-	
Freighter Queen Ltd.	Cayman Islands	Aircraft lease	US\$ 1,000	US\$ 1,000	1,000	100.00	32,895	-	-	-	
Mandarin Airlines	Mandarin Airlines Sweden AB	Sweden	Aircraft leasing agency	337,000	337,000	1,000	100.00	-	-	-	-
	Mandarin Aircraft Trading Co., Ltd.	Cyprus	Aircraft leasing agency	60,000	60,000	1,000	100.00	-	-	-	-
Cal-Asia Investment	Yangtze River Express Airlines Co., Ltd.	Shanghai	Forwarding and storage of air cargo	US\$ 38,796,173	US\$ 38,796,173	-	25.00	739,292,533	(1,281,278,191)	(320,319,539)	Note 4
	Xiamen International Airport Air Cargo Terminal Co., Ltd.	Xiamen International Airport	Forwarding and storage of air cargo	US\$ 3,254,526	US\$ 3,254,526	-	12.00	145,012,961	81,518,882	8,962,928	Note 4
	Xiamen International Airport Air Cargo Storage Co., Ltd.	Xiamen International Airport	Airport cargo and storage of air cargo	US\$ 1,626,428	US\$ 1,626,428	-	12.00	55,292,401	6,960,724	721,645	Note 4
	Eastern United International Logistics	Hong Kong International Airport	Forwarding and storage of air cargo	HK\$ 1,500,000	HK\$ 1,500,000	600,000	20.00	14,323,026	9,918,224	2,061,513	Note 3
Taoyuan International Airport Services	Taiwan Whi Lin Industry Co., Ltd.	Taichung, Taiwan	Other machine manufacturing	49,477,500	49,477,500	4,275,000	26.07	44,859,583	6,838,844	1,543,892	Note 3
	Tao Yao Co., Ltd.	Taoyuan, Taiwan	Manpower placement and machine installation	10,000,000	10,000,000	1,000,000	100.00	11,117,053	38,957	37,611	Note 3
Taiwan Airport Services	Taiwan Airport Service (Samoa)	TrustNet Chabers, Loteman Centre, P.O. Box 1225, Apia, Samoa	Airport services and investment	US\$ 5,294,476	US\$ 5,294,476	-	100.00	217,171,683	18,183,333	8,926,838	Note 4
Hwa Hsia	Hwa Shin Building Safeguard Co., Ltd.	Taoyuan, Taiwan	Building security and maintenance services	10,000,000	10,000,000	1,000,000	100.00	11,319,852	759,524	759,524	-
Taiwan Airport Service (Samoa)	Xiamen International Airport Air Cargo Terminal Co., Ltd.	Xiamen International Airport	Forwarding and storage of air cargo	US\$ 3,525,726	US\$ 3,525,726	-	13.00	157,074,779	81,518,882	9,709,839	Note 4
	Xiamen International Airport Air Cargo Storage Co., Ltd.	Xiamen International Airport	Airport cargo and storage of air cargo	US\$ 1,768,750	US\$ 1,768,750	-	13.00	60,069,904	6,960,724	781,782	Note 4

Note 1: Adopted the treasury stock method in recognizing investment income or loss.

Note 2: Represents the consolidated financial information of the foreign holding company disclosed in accordance with local regulations.

Note 3: Investee couldn't provide financial statements immediately, so investor recognized investment income or loss voluntarily.

Note 4: The investee was established as a limited company.

CHINA AIRLINES, LTD. AND INVESTEEES

INVESTMENT IN MAINLAND CHINA
SIX MONTHS ENDED JUNE 30, 2007
(In New Taiwan Dollars, Unless Stated Otherwise)

Investee Company Name	Main Businesses and Products	Total Amount of Paid-in Capital	Investment Type (e.g., Direct or Indirect)	Accumulated Outflow of Investment from Taiwan as of Jan. 1, 2007	Investment Flows		Accumulated Outflow of Investment from Taiwan as of June 30, 2007	% Ownership of Direct or Indirect Investment	Investment Gain (Loss)(Note 2)	Carrying Value as of June 30, 2007	Accumulated Inward Remittance of Earnings as of June 30, 2007
					Outflow	Inflow					
Yangtze River Express Airlines Co., Ltd.	Forwarding and storage of air cargo	\$ 2,158,894,646 (RMB 500,000,000)	Indirect (Note 1)	\$ 1,276,189,901 (US\$ 38,796,173)	\$ -	\$ -	\$ 1,276,189,901 (US\$ 38,796,173)	25%	\$ (320,319,539) (US\$ 9,737,714)	\$ 739,292,533 (US\$ 22,474,492)	\$ -
Xiamen International Air Cargo Terminal Ltd.	Forwarding and storage of air cargo	969,257,340 (RMB 224,480,000)	Indirect (Note 1)	107,056,776 (US\$ 3,254,526)	-	-	107,056,776 (US\$ 3,254,526)	12%	8,962,928 (US\$ 272,473)	145,012,961 (US\$ 4,408,394)	-
Xiamen International Airport Air Cargo Storage Co., Ltd.	Airport cargo and storage of air cargo	60,449,050 (RMB 14,000,000)	Indirect (Note 1)	53,500,921 (US\$ 1,626,428)	-	-	53,500,921 (US\$ 1,626,428)	12%	721,645 (US\$ 21,938)	55,292,401 (US\$ 1,680,889)	-

Accumulated Investment in Mainland China as of June 30, 2007	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
\$1,436,747,599 (US\$43,677,127)	\$1,481,907,895 (US\$45,050,000)	\$12,842,301,811 (Note 3)

Note 1: The Company invested in Cal-Asia Investment, which, in turn, invested in Mainland China.

Note 2: The accrual basis is based on the financial statements audited by CPAs of China Airlines, Ltd. in ROC.

Note 3: The limits based on the Investment Commission's regulation, "Investment or Technical Cooperation in Mainland China Adjudgment Rule," are as follows: 40% for an NT\$5 billion investment, 30% for investments of over NT\$5 billion to NT\$10 billion, and 20% for investments of over NT\$10 billion.

Note 4: The amounts of assets and gain or loss in RMB and U.S. dollars are translated at the year-end rates and the average rate of IATA, respectively.